1991

Domtar Inc. presents its Annual Report

DOMTAR®

Shareholder and Investor Information

Domtar Inc.

Annual Meeting

The Annual Meeting of Shareholders will be held at 2 p.m. on Friday, May 8, 1992, in the Château Champlain Hotel, Montréal, Québec.

Annual Information Form

The Annual Information Form may be obtained by writing to the Secretary, Domtar Inc.

Transfer Agents and Registrars

For Common, Preference, and Series "A" and "B" Preferred Shares:
Montreal Trust Company
- Halifax, N.S.;
Saint John, N.B.;
Montréal, Qué.;
Toronto, Ont.;
Winnipeg, Man.;
Regina, Sask.;
Calgary, Alta.;
Vancouver, B.C.

For Common Shares only:
The Bank of New York, New York, N.Y.

U.S. Cash Dividend Plan

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company (514) 982-7555.

Stock Exchanges

Common, Preference, and Series "A" and "B" Preferred Shares are listed on the Montréal, Toronto and Vancouver stock exchanges.

The Common Shares are also listed on the New York Stock Exchange.

Ticker Symbol: DTC

Investor Relations

H.M. Wilson, Treasurer
(514) 848-5860

Shareholder Services

Shareholders having inquiries concerning their shares or wishing to obtain information about the Corporation should contact:

Montreal Trust Company
Shareholder Services
1800 McGill College Avenue
Place Montréal Trust
6th Floor
Montréal, Québec
H3A 3K9
(514) 982-7555

Head Office

395 de Maisonneuve Blvd. W.
Montréal, Québec
H3A 1L6
(514) 848-5400

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Station "A"
Montréal, Québec
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Domtar publie son rapport annuel en français et en anglais.

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Corporate Profile

Domtar is a resource-based corporation committed to providing its customers worldwide with competitively priced, top-quality products backed by superior customer service.

With manufacturing facilities situated throughout Canada and the United States, the Corporation offers a broad range of pulp and paper products, packaging and construction materials. It is a leading producer and marketer of fine papers and containerboard. It ranks third in North America among suppliers of gypsum products and is the continent's largest supplier of thermally-fused, decorative melamine panels.

Domtar also is a major recycler of paper, containerboard, wood residues and gypsum.

Financial Highlights

(millions of Canadian dollars)

	1991	1990	1989
Sales	**$ 1,804**	$ 2,314	$ 2,515
Operating profit (loss) before unusual items	**(125)**	(45)	124
Unusual items	**—**	(334)	(35)
Operating profit (loss)	**(125)**	(379)	89
Earnings (loss) from continuing operations	**(148)**	(333)	15
Net earnings (loss)	**(148)**	(294)	33
Net cash flow (used for) from operations	**(18)**	77	212
Total assets	**2,742**	2,824	3,279
Per common share			
Earnings (loss) from continuing operations *(1)*	**$ (1.69)**	$ (3.87)	$ 0.04
Net earnings (loss) *(1)*	**(1.69)**	(3.44)	0.23
Dividends declared	**—**	0.3049	0.4878
Year-end book value	**7.12**	8.94	12.78
Return on common shareholders' equity	**(21)%**	(33)%	2%
Ratio of long-term debt to shareholders' equity	**58 : 42**	52 : 48	39 : 61

(1) The 1990 and 1989 results include the after-tax impact of unusual items of $(2.66) and $(0.26) per share, respectively.

Financial Results

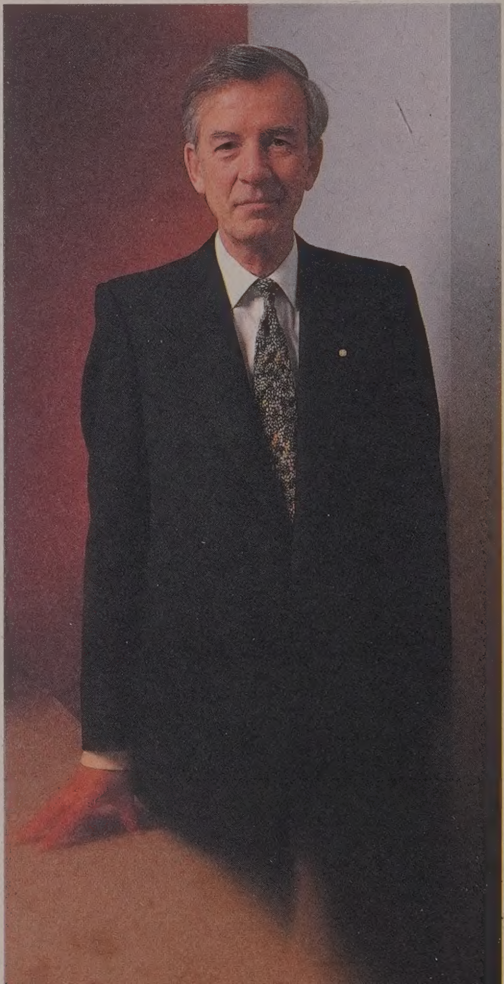
Domtar incurred a net loss of $148 million or $1.69 per common share in 1991, compared with a net loss for continuing operations of $333 million or $3.87 per common share in 1990. The 1990 results included unusual charges amounting to $237 million after tax, or $2.66 per common share. An operating loss of $125 million was incurred for 1991, compared to an operating loss before unusual charges of $45 million in 1990.

The severe recession in the North American economy has had a significant adverse impact on the business sectors in which Domtar competes, particularly as it has coincided with the onset of major new industry capacity additions in fine papers. Prices for most of Domtar's products, including the commodity grades of fine paper produced at Windsor, declined sharply. The adverse impact of the recession was compounded by the continuing high value of the Canadian dollar, which averaged slightly in excess of 87 cents U.S. during 1991.

Against this background, and to position itself to take full advantage of an eventual improvement in the economic environment, Domtar concentrated on four areas in 1991:

Cost Competitiveness

The Corporation implemented a wide-ranging program to substantially improve the cost effectiveness of its operations through plant rationalizations, work force reductions and changes in work practices.



Mr. Jean Campeau

These initiatives, combined with other ongoing operational improvements, resulted in the reduction of Domtar's cost base by a further $135 million during 1991, substantially exceeding the target of approximately $70 million set out in the 1991 business plan. As part of this program, a decorative panels plant in Olive Branch, Mississippi and a corrugated container facility in Kitchener, Ontario were closed. The sales from these plants were consolidated at other lower-cost facilities.

Total cumulative cost reductions since the launch of the Corporation's restructuring program in late 1989 are estimated at close to $200 million on an annualized basis. What's more, they represent a permanent reduction in Domtar's cost base and were achieved without the loss of capacity and without undermining its ability to service customers with high-quality products.

Major new cost-reduction and profit-improvement initiatives are being undertaken in 1992, as part of a longer-term program to enhance the contribution of all of Domtar's businesses to shareholder value and to generate financial returns in line with the leading North American competition in Domtar's core industries.

Business Strategy

Domtar has formulated a direction in principle for its long-term business strategy, which focuses on those core businesses that have the potential to be cost-effective in the North American free trade environment.

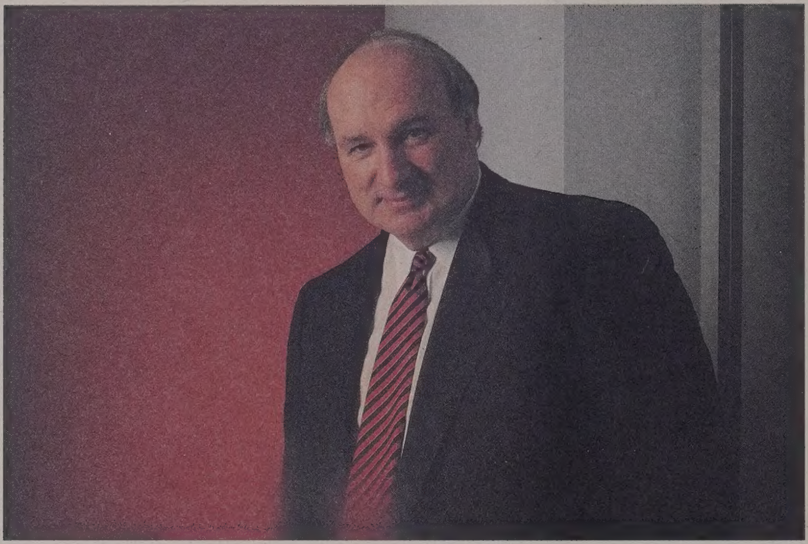
This focus on fewer business segments, which will include Domtar's fine papers operations, also is intended to reduce the need to finance the capital investments required to maintain and expand all of its existing businesses. Accordingly, the Corporation may seek to dispose, on acceptable terms, of those business segments which no longer fit its long-term strategy.

In line with this strategic re-orientation, the sale of the residential roofing business was completed in March 1991. The Corporation also sold its 50% interest in Domtar Sonoco Containers Inc.

Finance Strategy

In July 1991, the Corporation issued 11.1 million Common Shares for net proceeds of $97 million and, early in 1992, implemented a comprehensive new financing program consisting of the following key elements:

- a new $500-million revolving credit facility arranged with its principal bankers;
- the issuance of U.S. $175 million of Notes;
- the replacement of an existing $150-million loan with the same amount of new Preferred Shares; and
- the issuance in Canada of Common Shares of the Corporation for gross proceeds of $150 million.



Mr. Pierre Desjardins

and eliminate levels of management. This has facilitated more direct communications and faster turn-around times, improved the decision-making process and helped to sharpen the focus of Domtar's various businesses to make them more responsive to the specific needs of their customers.

A prime example of this new, more effective organizational approach was the splitting of the former Fine Papers Division into two separate operations, the Communication Papers Division and the Specialty Fine Papers Division. To facilitate closer links between management, operations and customers, the Communication Papers Division has established its headquarters at Windsor, Quebec and the Specialty Fine Papers Division at Cornwall, Ontario, where their respective mills are situated.

This new financing package will provide the funds necessary for Domtar to improve its liquidity and to meet its capital needs during the next several years.

Organization

A key element in Domtar's drive to improve its competitiveness was a restructuring of the organization to reduce the number of salaried and hourly personnel (so far, some 3,500 positions have been abolished)

As well, all divisions have streamlined their management structures and established highly autonomous business units that are able to respond quickly and effectively to the shifting demands of the marketplace.

Throughout the Corporation, particular emphasis has been placed on fostering a new positive attitude based on increased autonomy and accountability for employees at all levels, and on adopting a team approach that will help Domtar realize its goals of providing cost-competitive products of high quality backed by superior customer service.

Meanwhile, Domtar has substantially completed the rebuilding of its senior management team, with the appointments of Mr. Stephen C. Larson as President, Pulp and Paper Products, Mr. Robert G. Vaux as Vice-President, Finance and Corporate Development and Chief Financial Officer, Mr. Pierre Deniger as Vice-President, Corporate Affairs and Mr. Claude Saillant as Vice-President, Human Resources.

Outlook for 1992

Markets for the products sold by Domtar are sensitive to general business and economic cycles. In addition, the pulp and paper and packaging industries are highly capital-intensive and the impact of large new capacity additions can lead to cyclical supply/demand imbalances. Demand and pricing levels in most of those markets were at or near historical lows at the end of 1991.

Early in 1992, several market segments were showing signs of recovery and the Canadian dollar had retreated somewhat from its punishingly high level on foreign exchange markets. But given the continuing weakness in many of its principal business segments, the Corporation expects to incur an operating loss for 1992, even taking into account anticipated benefits from the significant cost-reduction and profit-improvement programs that have been implemented and other such measures planned for 1992.

Discussions have taken place with the Corporation's employees and their unions to share information on the current situation and to explore ways to further improve Domtar's cost competitiveness. Management believes these on-going discussions will result in additional cost reductions.

Together with the new financing program and the major initiatives already taken to hone its competitive edge—initiatives that will be intensified during 1992 — Domtar should be well positioned to maximize the benefits of the gradual economic recovery forecast to take hold in the second half of the year.

Board of Directors

At the annual shareholders' meeting on April 30, 1991, the number of directors was reduced to 17 from 18. Messrs. Marc G. Fortier and Pierre Lamy were appointed directors of the Corporation during 1991. Messrs. Paul Berthiaume, John C. Major, Raymond R. Pinard, James H. Smith and Robert Tessier left the Board during the year; we wish to thank them for their contributions. In February 1992, Messrs. Claude Hélie and John D. Thompson were appointed to the Board.

Appreciation

The directors recognize that 1991 was a most difficult year and they wish to express their gratitude to all employees for their dedication and support during this process of change.

On behalf of the Board,

Jean Campeau
Chairman of the Board

Pierre Desjardins
President and Chief Executive Officer

Pulp and Paper Products

A concerted effort involving management and employees at all levels has been initiated to enhance the competitive position of Domtar's extensive pulp and paper operations. Perhaps most significantly, a strategic restructuring of fine paper operations was carried out during 1991. This sector was reorganized into two separate divisions: communication papers and specialty fine papers. In addition, Domtar operates a merchants distribution network.

Changing market conditions resulting from the Canada-U.S. free trade agreement, the need for rapid response to the customer requirements of distinct business segments, and a determination to be profit-driven rather than tonnage-driven were key considerations in the decision.

Similar initiatives were undertaken at Forest Products, Market Pulp, Newsprint and Groundwood Specialties—with common goals in mind: improved competitiveness, increased profitability, enhanced product quality and superior customer service.

Communication Papers

Domtar's world-scale mill complex at Windsor, Québec is the centrepiece of the Communication Papers Division, producing uncoated freesheet papers in various grades.

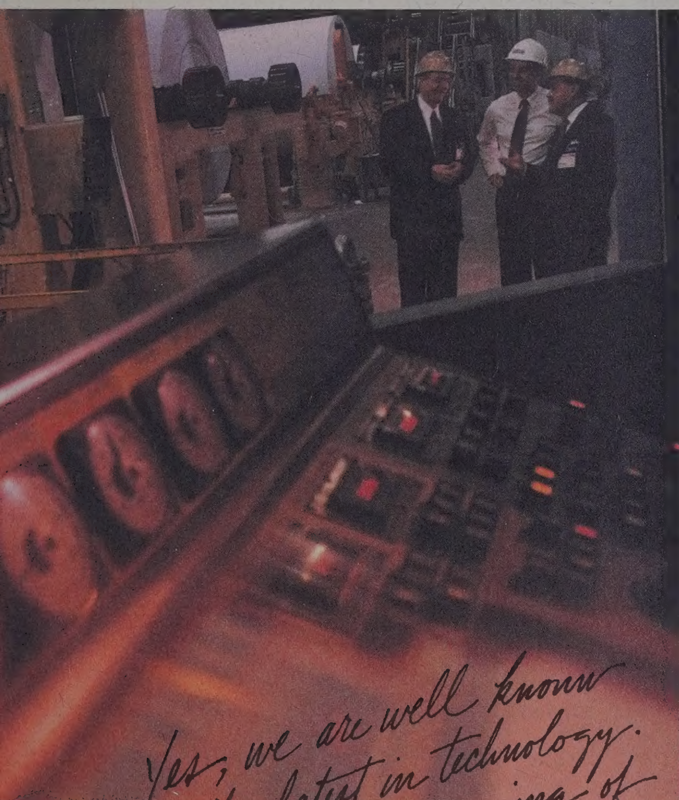
Although Domtar continues to be a major supplier to the Canadian market, the Eastern and Midwest United States now account for about 65% of sales. Product lines include photocopy paper, bond paper for forms and computer printouts, envelope papers and offset printing papers.

Competitive analysis, conducted as part of a major overall strategic re-evaluation by the Corporation in 1991, indicated that Windsor's product quality was equal to or better than leading competition, and that the mill had the potential to be cost-competitive with the top quartile of all North American producers, based on its existing investment in modern fine paper manufacturing technology. The program being undertaken by management calls for an increase in annual production from the 1991 year-end running rate of 385,000 short tons annually to a level of 525,000 tons, as a result of maximizing operating up-time and efficiencies and rationalizing the mill operations and product-mix.

An aggressive action plan has been developed by the division's new management team to achieve its cost reduction and productivity objectives and also to underpin the mill's low-cost position with superior customer service. Divisional management is now based at the mill site in order to ensure closer co-operation between mill operations and customer service requirements.

Significant progress is being made both in the area of customer service, through upgrading systems, procedures and personnel, as well as in enhancing the efficiency of all elements of the mill operations. Production volumes, in early 1992,

In the usual order, Luc Desjardins, President and Chief Executive Officer of Supremex Inc.; Yvon Boyer, Vice President - Converter Sales, Domtar Communication Papers; and Robert C. Gougeon, Chairman of the Board, Supremex Inc., photographed in the control room of paper machine No. 7 at the Windsor, Québec communication papers mill.



Yes, we are well known and use the latest in technology. However, the true meaning of being world-class is our capability of supplying customers with the finest products available.

Yvon Boyer

are exceeding the levels budgeted and cost reductions are being achieved through reduced fibre, energy and labour costs. In this regard, manning levels have been reduced by 15%, compared with early 1991, without adversely affecting the achievement of increased productivity levels. At the same time, fibre supply agreements with wood marketing boards have been successfully renegotiated.

Also, in February 1992, the Corporation received approval for construction by a third party of a 170-megawatt cogeneration plant at the Windsor complex, which will yield substantial additional energy cost savings.

The latest paper-making technology has been utilized to increase throughput and improve productivity at Windsor, supported by a continued emphasis on the Total Quality process. In response to changes in customer demand, the two main paper machines were successfully converted to alkaline paper production during 1991. These papers now offer improved opacity and brightness, longer life expectancy and confer a number of environmental cost benefits.

Specialty Fine Papers

An intensified, more tightly focused marketing strategy is paying dividends in the form of increased penetration of international markets for Domtar's Specialty Fine Papers Division.

Domtar manufactures a full line of specialty papers, including opaque offset printing grades, coated cover papers, premium stationery, text, cover papers and security papers, at mills in Beauharnois, Québec and in Cornwall and

Shown in the warehouse of Inter-City Papers in LaSalle, Québec, from left to right: Clyde Wetmore, Manager - Customer Service and Planning, Specialty Fine Papers; Sam A. Brown, Executive Vice President, Inter-City Papers; Jean-Pierre Renaud, Vice President and General Manager, Lauzier Little; and Gilles Bastien, Regional Manager, Specialty Fine Papers.

I regard our customers as partners. By responding promptly to their needs and consistently providing top-flight customer service, we'll ensure that these partnerships are long-lasting.

C. Wetmore

St. Catharines, Ontario. The Cornwall mill is integrated with its own hardwood pulp production.

Since it was established as a separate business entity last year, the division has refocused its Canadian sales staff to better meet the particular needs of customers and has significantly increased its U.S. sales force, with representation in such key markets as New York, Boston, Philadelphia, Chicago, and the Ohio Valley.

Truly international, with customers in some 50 countries, the division will also increase overseas sales of fine writing papers and other high-value-added products such as the currency and security papers produced at Beauharnois. Supported by sales representation in Canada, the U.S. and Western Europe, the latter product has recently been selected for the banknotes of newly independent Lithuania and was approve for use by the government of Venezuela.

In its drive to improve productivity and increase profits, the division has embraced a customer-driven operating philosophy that is based on meeting quantifiable objectives in terms of cost competitiveness, quality, service and partnership-type relationships. All service-related functions throughout the division, from the scheduling of orders to deliveries, are

overseen by a director of customer service and planning whose sole concern is customer satisfaction.

Cost-reduction targets have been established for each mill and management is exploring initiatives that will lead to closer cooperation with unionized workers in pursuit of a common goal —becoming the low-cost producer of top-quality speciality fine papers in each of the markets served.

Domtar is an industry leader in the production of specialty fine papers utilizing post-consumer recycled wastepaper. It produces a 100% recycled file folder grade and is the only Canadian manufacturer of 100% post-consumer, non-deinked stationery, text and cover papers. During 1991, three of the division's product lines, Concerto, Byronic and Sandpiper, met the rigid standards required for certification under the Canadian government's Eco Logo program. Other new product initiatives included the introduction of a Windsor book grade and a recycled variation of the popular Cornwall Coated Cover line.

Domtar Merchants

Domtar's extensive network of fine papers merchants supplies commercial printers, industrial customers and public institutions—particularly in the educational field—with a wide range of paper products produced by the Corporation and by other manufacturers. These wholesale distribution centres extend from London, Ontario to St. John's, Newfoundland.

Increased cost competitiveness and improved customer service were key considerations behind a major realignment of the merchants network carried out during 1991. Six separate merchant operations were consolidated into two comprehensive business units, which operate under the Buntin Reid banner in Ontario and La Maison du Papier/The Paper House in Québec and Atlantic Canada. In addition to streamlining the division's cost base, the realignment has resulted in customers throughout its Eastern Canadian market area being offered a wider line of products and being assured of prompt order handling and delivery.

Keenly aware that first-rate customer service is crucial in today's competitive market place, the division was poised at year's end to put in place a new Customer Satisfaction Index. The monthly index will provide on-going direct feedback from customers, which will be utilized to help ensure that Domtar's fine papers merchants are positioned as industry leaders offering product quality and service second to none.

Newsprint and Groundwood Specialty Papers

The Newsprint and Groundwood Specialty Papers Division operates two Québec mills, in Dolbeau and Donnacona, with a combined capacity of 335,000 tonnes, two sawmills, at Mistassini and Saint-Félicien, and the supporting forest operations.

The division has increasingly shifted its market focus towards the higher-valued groundwood specialty segments of the industry. Newsprint customers include a major portion of the North American publishing industry, while groundwood specialty papers are used in paperback books - where Domtar has a leading position -, newspaper advertising inserts and a number of sophisticated commercial printing operations. More than 75% of the division's output is sold in the United States, with the balance marketed principally in Canada. A small quantity of newsprint is sold offshore.

In keeping with overall corporate goals, the division has worked aggressively to reduce costs, while boosting productivity and improving customer service. The sales force has been rationalized, so that representatives now handle both newsprint and groundwood specialty papers. Levels of management have been eliminated, pushing more responsibility for decision making out to the business units. In this regard, management is working closely with the unions to implement a more flexible team concept at the mills, under which all employees will have direct input into decisions involving their work and will share increased responsibility for customer service, cost control and product quality.

With customer service its top priority, the division is introducing a just-in-time delivery system. This will ensure prompt delivery of the correct products at the time specified, thereby assisting customers to maintain uninterrupted production schedules without the need to warehouse large inventories. To support this effort, the division has put increased emphasis on its technical service team.

Market Pulp

Domtar's kraft pulp mill at Lebel-sur-Quévillon, Québec has an annual capacity of 250,000 tonnes of northern bleached, semi-bleached and unbleached softwood pulp. The plant supplies Domtar's fine paper mills and sells the balance of its production to other manufacturers in Eastern North America and Western Europe.

Bleached hardwood pulp is produced at the Windsor, Québec fine papers complex, and any production surplus to the Corporation's internal requirements is sold in the North American market.

As part of a drive to boost productivity, lower costs and streamline the division's management structure, sawmills at Lebel-sur-Quévillon, Malartic, Matagami and Val-d'Or were integrated into the Lebel-sur-Quévillon business unit during the course of 1991. These four Québec sawmills produce lumber and wood chips for pulp.

A multi-faceted program which will result in further long-term cost savings, increased productivity and improved product quality at the Lebel-sur-Quévillon complex also was launched during 1991. Better fibre utilization will be achieved with construction of a new wood room that markedly reduces bark content in wood chips, thus improving the quality of fibre supply for pulp. As an added bonus in terms of efficiency, cost savings and environmental concerns, the bark will be recycled as fuel for the plant's boiler. As well, a $5.6-million modification to the recovery furnace will increase the mill's efficiency and boost pulp production by 10,000 tonnes.

Meanwhile, construction of a $60-million chlorine dioxide generating unit at Lebel-sur-Quévillon continues on schedule. This state-of-the-art installation is designed to eliminate the formation of dioxins and furans during the bleaching process. Not only will it ensure that the mill meets new federal government environmental regulations, but it also will improve the marketability of the product by enabling us to satisfy customer requests for pulp free of detectable amounts of dioxins and furans.

From the left, Gilles Lemieux, Manager - Sawmill Operations at the Lebel-sur-Quévillon sawmill in Québec; Jean-Gilles Thibeault, Project Manager; and Jacques Goulet, Assistant Project Manager, photographed here in the new wood room at the Lebel-sur-Quévillon sawmill.

The new wood room here at Lebel-sur-Quévillon will give us improved fibre utilization, reduced costs and higher quality - benefits that ultimately will be passed on to our customers.

Gilles Lemieux

Forest Products

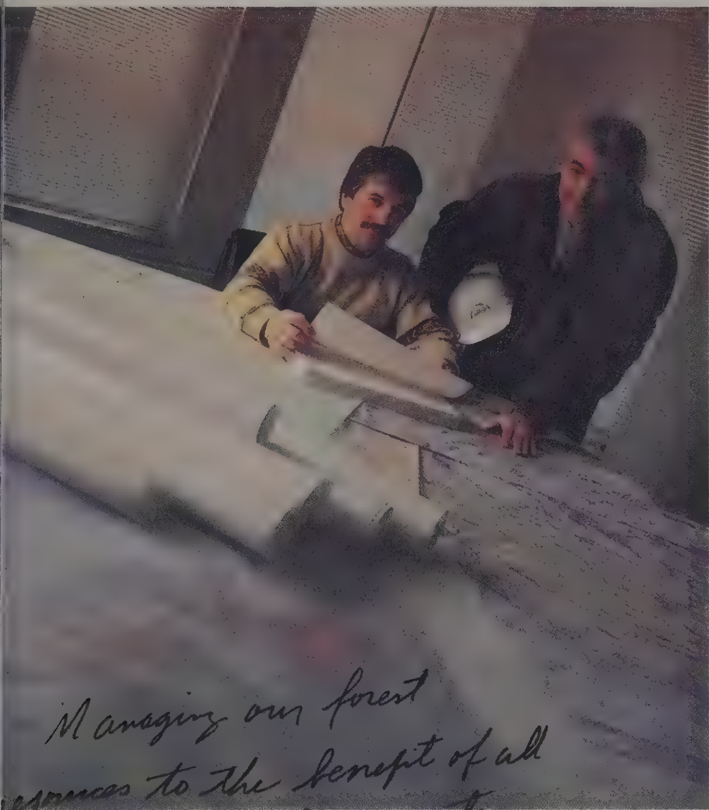
As the second largest lumber supplier in Eastern Canada, Domtar's Forest Products Division has a capacity of 625 million board feet of lumber produced at seven sawmills and sold to customers in North America and Europe. In addition to harvesting timber and selling lumber, the division also is responsible for the overall management of the Corporation's forest resources.

The forest products operations encompass four regional districts, each serving a specific business unit that can respond quickly and effectively to changing supply, regulatory or operating situations. With timber resources and sawmills located in the main lumber producing areas of Eastern and Central Canada, Domtar is strategically positioned to cost-effectively serve most major markets in the Eastern, Central and Southern United States, as well as Québec and Ontario. Its principal customers are wholesalers who purchase stud and random-length grades, primarily for use by the building trades, mobile home manufacturers and renovation chains. The division has also started to penetrate the lumber market in the United Kingdom and in other countries of the European Economic Community.

During 1991, a management-labor team effort, which stresses the involvement of employees at all levels, was responsible for further gains in terms of cost reduction, productivity improvement and quality throughout the division. A recent agreement with the government of Québec has enabled the Corporation to rationalize its sawmill and woodlands operations at Malartic and Val-d'Or and subsequently realize additional gains in productivity.

To ensure efficient management of resources, control of such key functions as technical services and environmental affairs as well as reforestration has been centralized at Domtar under the Forest Products Division.

The Corporation's forest management capabilities also were enhanced during the year with the introduction of a new Geographic Information System (GIS), which utilizes computer technology to help ensure that the public and company-owned woodlands in which it operates are administered in a cost-effective manner that meets government regulatory requirements. Detailed inventories of standing timber, identification of areas suitable for planting, field assessments of regeneration success and of damage caused by insects and diseases, together with environmental impact reports are all part of the wealth of information processed with this new management tool.



Sylvain Lemay (left), Manager of Forestry, Abitibi Region, and Gildas Minville, Manager of Logging, Lebel-sur-Quévillon.

Managing our forest resources to the benefit of all is a responsibility Domtar doesn't take lightly. It requires a combination of dedicated team work and technological know-how.

Gildas Minville

Domtar's strategies for managing these forest resources are carefully devised to maintain an uninterrupted fibre supply to its primary mills, ensure sustained yield and provide for sequential multiple use of the forest—all the while keeping in mind environmental considerations, the recreational needs of the public and the protection of wildlife. Regularly reviewed and amended to allow for the dynamic nature of the managed resource, forest-management plans are prepared in conjunction with government policies and legislation.

To realize those forest-management objectives in the Province of Québec, Domtar Forest Products planted 13.5 million seedlings in 1991, covering an area of approximately 6,100 hectares. In the same year, different types of thinning, mainly pre-commercial, were carried out on more than 3,000 hectares.

Packaging

Long acknowledged as an industry leader, Domtar reinforced its customer focus and cost competitive position in the packaging business during 1991 by consolidating its corrugated containers and containerboard operations into a single division. A flattened and simplified management structure was implemented, in order to create a more responsive organization emphasizing teamwork and continuous improvement. Operations have been reorganized into individual business units which, by focusing on a particular market segment, will be more responsive to the market and the needs of their customers. The new structure will enhance the Corporation's ability to meet competition from U.S. and domestic competitors. In addition, it will provide improved customer service and quality products while continuing to improve its cost competitiveness.

Domtar Packaging's operations include 14 converting plants strategically located across the country. These plants produce an extensive line of corrugated containers and related products, ranging from the standard regular slotted box to multi-coloured "high-graphic" point-of-purchase displays. The division supplies corrugated containers to a wide variety of end users and is a leading supplier of packaging to Canada's appliance industry.

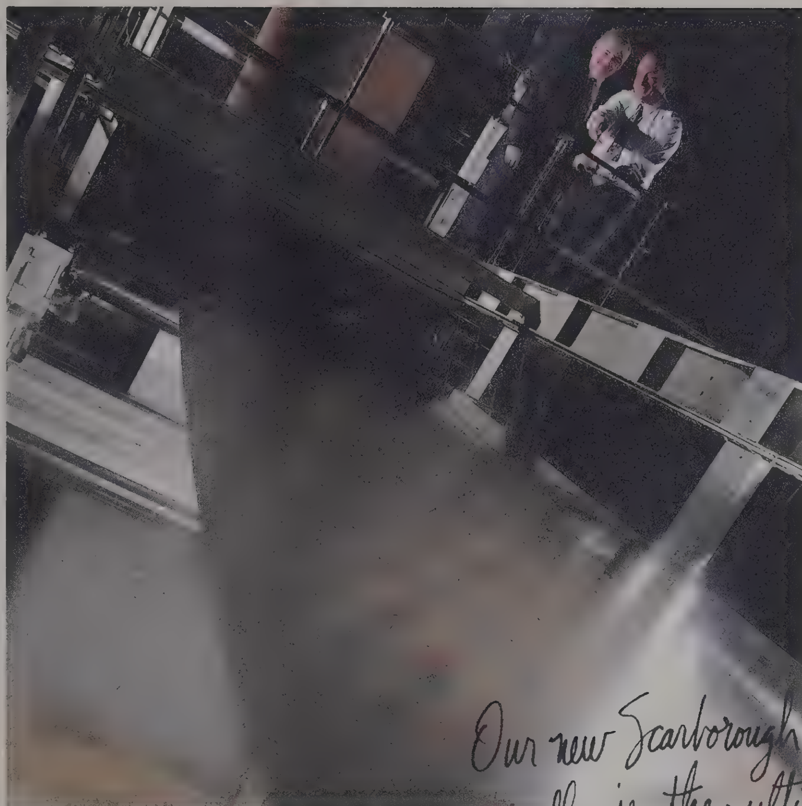
Having moved into new premises in 1991, Lithotech, Domtar's specialized high-graphics operation, is well-positioned to capitalize on the rapid growth in demand expected for this market segment—almost 10% per year. Lithotech's modern facility, located in Scarborough, Ontario, features state-of-the-art photography and graphic design studios as well as high speed corrugating/laminating equipment with the capability of producing a wide range of products. This "one-stop-shop" is able to satisfy all customer needs, from design to finished product, under one roof. Domtar also has significantly upgraded the printing capabilities of other key plants across the country, enhancing customer service while increasing cost effectiveness.

The division is the largest manufacturer of containerboard in Canada and is a principal supplier of linerboard and corrugating medium to the domestic market. Domtar mills in Mississauga, Trenton and Red Rock, Ontario, produce a full range of recycled and virgin linerboard and corrugating medium.

During 1991, both the Mississauga and Trenton mills set annual and daily production records, with the Mississauga board mill increasing production by 15% relative to the previous year.

In 1991, the division aggressively pursued export markets for its board, becoming a major Canadian exporter of containerboard. Development of these markets enabled the division to increase mill output relative to 1990 and previous years, despite the severe economic downturn.

As part of its corporate environmental commitment to "close the loop" with respect to the corrugated products it sells, the division collects and recycles used corrugated containers from customers and utilizes the secondary fibres at its Trenton and Mississauga mills—the latter of which is a fully recycled fibre mill. Some 425,000 tonnes of recycled fibre—including old corrugated containers and office wastepaper—were handled during the year, enabling the Corporation to make a significant contribution to the reduction of solid wastes.



Left, Paul H. Flack, Vice President of Wessan and Peter K. Stelzer, Vice President of Lithotech's Consumer Packaging Group in Scarborough, Ontario, photographed during a tour of Lithotech's ultramodern facilities.

The division's sales and technical representatives work in partnership with customers to meet and, wherever possible, exceed the goals and objectives of the National Packaging Protocol, through source reduction, product re-use and material recycling.

Our new Scarborough plant really is the ultimate in terms of high-graphic facilities, offering cost-effective "one-stop shopping" for a wide array of packaging and point-of-purchase products.

Peter Stelzer

Quality doesn't just happen. It is the result of constant attention to detail at every step of the manufacturing process, from the selection of raw materials to final inspection of the finished product.

Barry Hoffman

Fred Stevens (left) and Barry Hoffman are both responsible for quality control at the Mississauga containerboard mill in Ontario.

A number of specific initiatives to further reduce costs and improve productivity were undertaken by Domtar Packaging during 1991. These included a consolidation of operations in Ontario and at the Red Rock woodlands operation. As well, significant cost savings were achieved at the Mississauga mill as the result of employee initiatives to reduce fibre usage and through improvements to the automated process-control system.

Safety in the workplace is of primary concern within the division. This year marked the seventh consecutive year of reduced accident frequency and improved safety records. The Red Rock mill earned first place in Pulp and Paper Canada's "Safest Mill in Canada" program for facilities in its size class. As well, the Québec City corrugating plant was awarded the International Loss Control Institute's fourth-level award for plant safety, the first ILCI award at this level for the division and the second for Domtar.

Increased emphasis has been placed on the division's Continuous Improvement Management system, under which quality control and customer service are the shared responsibility of every employee. Just one measure of the division's accomplishments in this area was the selection of the Leaside plant, Toronto, as a "Select Supplier" by Campbell Soup Co. Ltd., a major customer.

With U.S. housing starts lagging some 40% below pre-recession highs and commercial construction activity curtailed by an over-supply situation in major North American markets, 1991 was a difficult year for the sale of construction materials. Consequently, the emphasis at Domtar divisions active in this sector was on reducing costs, increasing productivity and reinforcing the Corporation's reputation for quality and customer service.

Management structures were streamlined and highly autonomous business units which are quicker to respond to customer requirements were set up within both the Gypsum products and Decorative Panels Divisions, thereby positioning these operations to profit from the anticipated economic recovery. Domtar's residential roofing business was sold early in 1991 and measures were taken to enhance the already strong competitive position of the Techni-Therm commercial Roofing Division in the Canadian market. The Wood Preserving Division succeeded in doubling its export business during the course of the year.

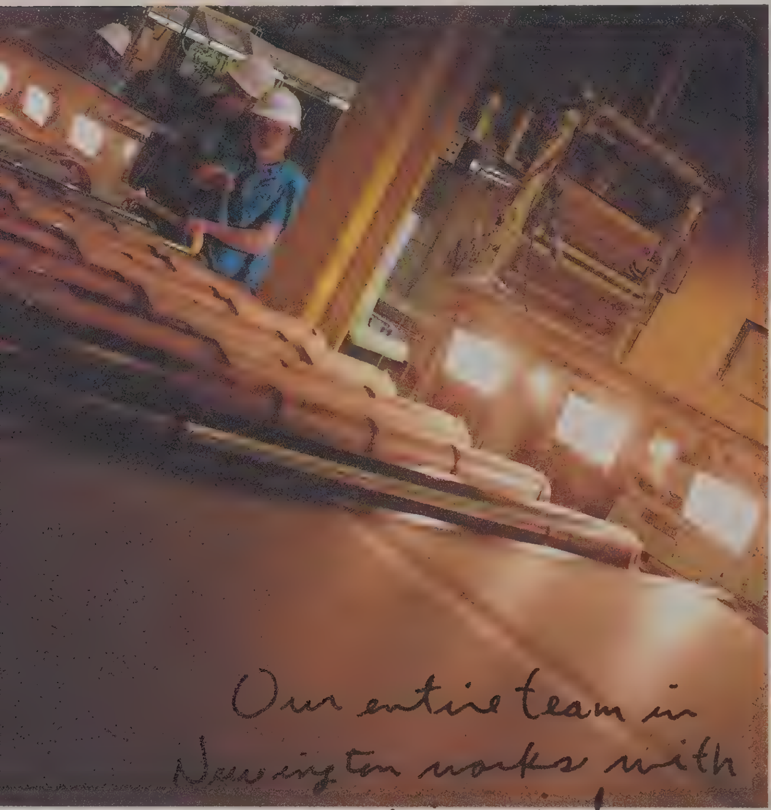
Gypsum Products

Domtar Gypsum operates seven gypsum board plants in the United States and four in Canada, as well as a gypsum plaster plant in Windsor, Nova Scotia. It manufactures gypsum paperboard in San Leandro, California and Lockport, New York and produces joint compounds in Fort Lauderdale and Orlando, Florida and Longueuil, Québec. The board plants continue to increase the amount of recycled gypsum wallboard used in their production process, underscoring Domtar's commitment to incorporating recycled materials into its manufacturing operations wherever feasible.

As the third-largest supplier of gypsum products in North America, Domtar Gypsum serves customers in most major regional markets in Canada and the United States. Its product range includes gypsum board (a product for which there is no economical substitute for constructing interior walls and ceilings), shaftwall enclosure systems and movable partitions, fire-resistant and sound-control assemblies and exterior sheathing. The division also produces numerous accessory products for finishing and decorating interior surfaces and an array of gypsum products for agricultural and industrial use.

Faced with an ongoing slump in the North American construction industry, Domtar Gypsum responded by achieving considerable cost savings and improving its operating efficiency, while continuing to rationalize its operations. Two gypsum board plants, one in Sweetwater, Texas and one at Caledonia, Ontario, were mothballed.

While Mike Smela (background) makes sure the equipment is running properly, Ron Currier (left) and Steve LePage carefully check the quality of the gypsum board products at the Newington, New Hampshire plant. All three are part of the plant's Production Team.



Our entire team in Newington works with one goal in mind - satisfying the customer. Our future depends on it.

Steve LePage

A decision to establish autonomous business units within each market to better meet customer requirements has enabled Domtar to remain on the leading edge of the industry, offering improved product quality combined with superior customer service while, at the same time, reducing manufacturing and administrative costs.

The division has introduced a Total Quality Management process throughout its operations and is continuing to expand its Employee Involvement program. These measures have contributed to the division's ability to react positively to the worsening business conditions experienced during the year.

During its first full year of operation, the flagship gypsum board plant at Newington, New Hampshire met its projected cost and market-share targets—an achievement that can be credited in part to the socio-technical organizational structure that was put in place at the new facility.

The division's strategy is based on continuing to build on the regional positions where it has strong competitive market share. Given the lacklustre economic outlook and a continuing overhang of excess industry capacity, Domtar Gypsum intends to adhere to this strategy of aggressively seeking out opportunities for further cost reductions and improvements in quality and service in order to increase profits.

Decorative Panels

Domtar is North America's largest supplier of thermally-fused decorative melamine panels, with a combined production capacity of 240 million square feet annually from plants strategically located in Huntsville, Ontario, Norcross, Georgia and Albany, Oregon.

During 1991, Domtar completed a major expansion of the Huntsville plant and by the same time increased sales volume by 60% compared to 1990, despite poor economic conditions, and significantly improved its cost structure by closing the plant in Olive Branch, Mississippi, and rationalizing the production at the plant in Norcross, Georgia.

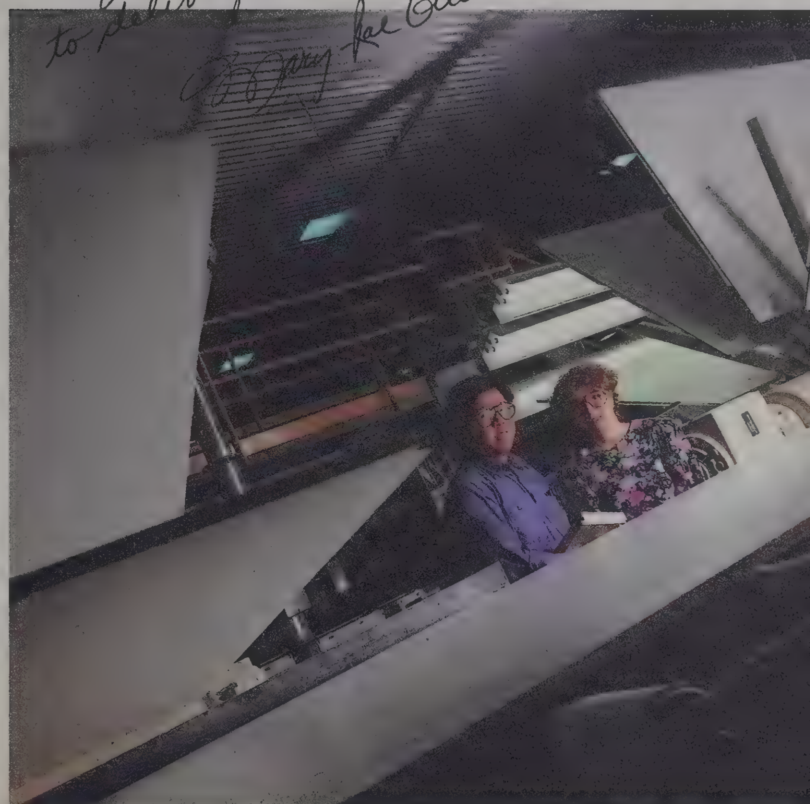
Decorative melamine panels are used in the manufacture of furniture for household and commercial applications, including cabinets, wall units and store fixtures. They are marketed almost exclusively through wholesale distributors. Domtar has strengthened its relationship with these customers by forming distributor councils in each of the major regional markets in which it is active. This is doubly beneficial — providing both direct feedback in terms of customer satisfaction and an opportunity to build long-term business partnerships. An innovative Participative Management system has helped focus the attention of all division employees on efforts to decrease costs while improving quality and productivity in the pursuit of sustained profitablity. The concept behind Partcipative Management is to instill a better understanding of the needs of all four key players in the business relationship — customers, employees, suppliers and shareholders.

Wood Preserving

Domtar has the largest share of the Canadian market for pressure-treated industrial wood products and is aggressively pursuing sales opportunites abroad, having doubled its export revenues during 1991. Treatment plants serve industrial and consumer markets at the regional, national and international levels. The division's most important products are utility poles, railroad ties, piling and engineering timbers.

A crucial part of the job entails follow-through after I've made a sale - working closely with customers to ensure that all their requirements from quality specs to delivery dates are satisfied.

Mary-Rae Gilchrist



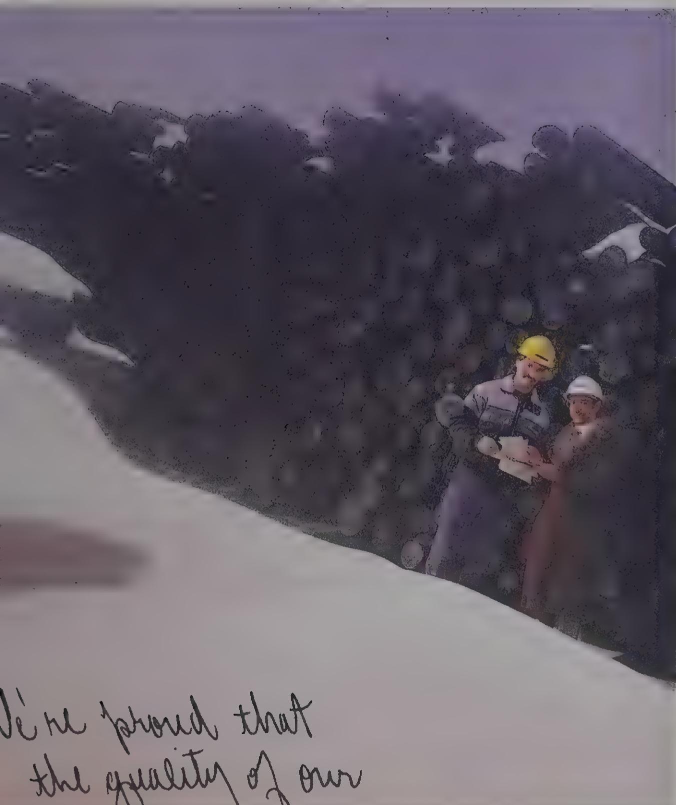
For Sam Quan (left), Laboratory Technician, and Mary-Rae Gilchrist, Customer Service Representative, quality control and customer service are two of the biggest assets of the Huntsville, Ontario decorative panelling plant.

Conscious of the need for a competitive edge in a price-sensitive commodities market, Domtar has rationalized its wood preserving operations at plants in Truro, Nova Scotia, Delson, Québec and at Prince George and New Westminster in British Columbia, in order to reduce costs and ensure maximum utilization of production capacity. A plant in Trenton, Ontario has been closed and a plant in Camrose, Alberta was to be closed early in 1992.

The division's competitive position is enhanced by its reputation for processing expertise and rigid quality-control standards, which ensure strict adherance to commodity standards for the penetration and retention of the treating chemical as well as the quality of the wood itself. The addition of a drying kiln at the Delson plant during 1991 reinforces Domtar's capability to provide first-rate customer service.

Much of Domtar's dramatic growth in overseas sales has resulted from the pursuit of market opportunities in less-developed countries undertaking major expansions and improvements to their electrification and telecommunications networks in rural areas. Customers include Turkey, Algeria and Tunisia and, during 1991, the division secured its first contract in Morocco.

Domtar is careful to ensure that both its production facilities and its impregnated wood products meet environmental standards set by the relevant governments and regulatory agencies. What's more, the Corporation has developed and patented a new, less toxic and more environmentally friendly wood preservative. Ammoniacal copper quat, commonly referred to as ACQ, already has been approved for use in the United States by the U.S. Environmental Protection Agency. Similar approval is being sought from Canadian regulatory authorities.



Sylvain Lemay (left), Woodyard Foreman at the Delson, Québec wood preserving plant, and Jos Kaddis, Manager - International Marketing, Wood Preserving, check an order of treated poles about to be shipped to North Africa.

We're proud that the quality of our products has earned us an international reputation and increased overseas sales.

Jos Kaddis

Commercial Roofing

From distribution centres in Montréal, Toronto and Vancouver, Domtar's Techni-Therm commercial roofing division supplies contractors across Canada with a "total system" package of roofing materials featuring the high-performance Rx insulation panels manufactured at its Cornwall, Ontario plant.

Recognized as a major force in Canadian commercial roofing, Techni-Therm further strengthened its competitive position during 1991 through a series of measures which increased productivity and reduced costs while enhancing the division's reputation for quality and customer service. These measures included sourcing key raw materials closer to the manufacturing facility, thereby substantially reducing transportation costs, taking full advantage of reduced tariffs under the Canada-U.S. free trade agreement for obtaining other raw materials, and adjusting production schedules and manpower levels to ensure both optimum productivity and on-time deliveries.

Research and Development

The Corporation is keenly aware that technological leadership—which ultimately results in enhanced customer satisfaction—is a key to market leadership. Accordingly, Domtar is one of the few Canadian-based forest products companies which maintains its own dedicated, in-house research and development program as well as supporting industry and university-based R&D efforts.

At Domtar's Research Centre in Senneville, Québec, near Montréal, approximately 70 people are engaged in research related to the pulp, paper, packaging and construction materials sectors. During the year, the centre was instrumental in the commercialization of the alkaline papermaking process introduced to both the Windsor and Cornwall mill complexes, insuring that maximum benefits were derived in terms of both process efficiency and product quality. It also was engaged in the development of a dioxin-free grade of kraft pulp now in commercial production at the Lebel-sur-Quévillon mill and undertook successful, elemental chlorine-free bleaching trials at another of the Corporation's mills. As well, the centre's R&D support helped increase foreign market penetration of the securities papers manufactured at Beauharnois.

Recycling figures prominently in the research centre's activities. After initial laboratory work, mill trials have begun on an innovative process that produces a high-quality recycled pulp—a process Domtar expects to commercialize within the next year. And work continues with the divisions to introduce additional recycled lines into their respective product mixes.

The Corporation's restructuring program has included a reorientation of environmental R&D initiatives. Work has commenced on longer-term strategic issues such as environmental impact assessment, the devising of new closed processes and waste management.

1991 Compared with 1990

Net Loss

The net loss in 1991 was $148 million ($1.69 per Common Share) compared to a net loss of $294 million ($3.44 per Common Share) and a loss from continuing operations of $333 million ($3.87 per Common Share) in 1990. The net loss for 1990 included earnings of $39 million ($0.43 per Common Share) attributable to discontinued operations. The loss from continuing operations in 1990 included a $237 million after-tax charge ($334 million pre-tax) for asset write-downs and provisions for restructuring and site restoration costs.

Operating Results

Sales in 1991 were $1,804 million, which represented a 17% decline from $2,184 million in 1990 after excluding the effect of divested operations in the construction materials segment. An operating loss of $125 million was incurred in 1991 compared to an operating loss before unusual items of $45 million in 1990. The decline was the result of reduced demand and weaker pricing in Domtar's principal businesses and the adverse impact of the stronger Canadian dollar, which accounted for approximately $20 million of the decline. These negative factors were moderated by a program to improve Domtar's overall cost competitiveness which has reduced operating costs and general expenses during 1991 by approximately $135 million. These savings were realized despite the impact of inflation on wages and salaries and certain other costs. Domtar expects that the full year impact of the actions implemented at various times during 1991 will result in an additional reduction in costs in future years. By the end of 1991, a total of approximately 3,000 salaried and non-salaried positions had been eliminated.

Pulp and Paper Products

Sales of fine papers in 1991 decreased by 18% to $671 million from $820 million in 1990 and shipments declined by 9% from 1990 to 1991. An operating loss of $59 million was incurred in 1991 compared to an operating profit before unusual items of $1 million in 1990. The decline in operating results was primarily due to a rapid and severe cyclical downturn in industry selling prices in the first half of 1991 as a result of lower demand combined with the impact of new capacity additions. There was an improvement in demand and pricing in the third quarter of 1991. However, at the end of the fourth quarter selling prices were once again under downward pressure.

The unfavourable effect of lower fine papers selling prices and sales volumes was moderated by reduced operating costs and general expenses. During 1991, Domtar continued programs to improve customer service and cost competitiveness. In late 1991, the Corporation announced manning reductions at the fine paper mills of approximately 400 employees or 20% of the permanent work force. These reductions are expected to be achieved without adversely affecting production levels or product quality.

Due to weak industry demand, Windsor's shipments in 1991 amounted to 322,000 short tons, compared with 351,000 short tons in 1990. However, during the course of 1991, Windsor continued to make progress in increasing its production capacity. By the end of 1991, sustained production rates equivalent to 385,000 short tons on an annualized basis were being achieved, and as a result the mill was better positioned to take advantage of a recovery in the fine papers market through increased shipments. Domtar believes it will be able to increase Windsor's annual capacity to approximately 525,000 short tons in the next several years through operating efficiencies, including an increase in machine speeds, without significant additional capital expenditures. To meet changes in customer demand, the paper machines at Windsor have now been converted from acid to alkaline paper making.

Sales of market pulp, newsprint and groundwood specialties declined by 17% to $375 million in 1991 from $451 million in 1990. Newsprint and groundwood specialty paper shipments declined by 11% in 1991 and market pulp shipments were essentially flat. An operating loss of $29 million in 1991 was incurred compared to an operating profit before unusual items of $1 million in 1990. The decline in operating results reflected lower selling prices for pulp, which were on average 25% below 1990, as well as lower selling prices and lower shipments for newsprint. Pulp prices started to recover in the fourth quarter of 1991. A 4% increase in the price of northern bleached softwood kraft pulp was implemented in December 1991 and a further 4% increase has been announced for February 1992. However, at year-end, newsprint selling prices were still under downward pressure, reflecting weak demand and the impact of a major capacity expansion cycle. The impact of lower pulp and newsprint sales was partially offset by cost reduction measures.

Consistent with its program to improve overall cost-competitiveness, Domtar announced, on February 10, 1992, the permanent shut-down of its newsprint operations at the Red Rock, Ontario mill effective May 1992. In conjunction with the shut-down, mill operations will be reorganized to improve the competitiveness of the Red Rock linerboard operations. The measures announced will affect approximately 300 hourly and salaried employees.

Packaging

Sales declined by 13% to \$375 million in 1991 from \$430 million in 1990 and shipments of corrugated containers declined by 7% from 1990 to 1991. Operating profit was \$4 million in 1991 compared to operating profit before unusual items of \$14 million in 1990. The decline in sales and operating profit resulted from lower product prices and lower demand. In early 1992 all major U.S. producers announced an increase in selling prices for containerboard. The increase, if implemented, would restore prices to close to the levels realized in early 1990 before the start of the current downcycle. The impact of lower sales was partially offset by reduced operating costs as well as lower depreciation expense resulting from a write-down of assets at the end of 1990.

Construction Materials

Sales in 1991 declined by 21% to \$383 million from \$483 million in 1990, after excluding from 1990 sales of \$130 million related to the residential roofing business, which was divested in the first quarter of 1991, and a fiberglas insulation distribution arrangement terminated during the third quarter of 1990. Including the sales from these operations, sales in 1991 decreased by 38% to \$383 million from \$613 million in 1990.

The operating loss from construction materials was \$41 million in 1991 compared to an operating loss before unusual items of \$61 million in 1990. The improved results reflected the non-recurrence of operating losses for residential roofing as well as reduced operating losses for gypsum and decorative panels. Gypsum board prices and shipments declined in 1991 as a result of the downturn in construction and increased competition. However, these factors were more than offset by lower operating costs and general expenses, and reduced depreciation as a result of a write-down of assets at the end of 1990.

Outlook

The markets for many of the products sold by Domtar are sensitive to business cycles, and current levels of pricing and sales volumes are at or near recent historical lows. While Domtar is continuing to implement further cost reductions, operating improvements and new marketing strategies, it expects to incur an operating loss in 1992 primarily due to the continuing weakness in its principal businesses.

Other Expenses

Interest Expense

In 1991, interest charged against earnings, net of interest income on short-term investments, decreased to $88 million from $95 million in 1990 due to lower interest rates on the Corporation's variable rate debt. Total interest, including capitalized interest, decreased to $92 million from $101 million in 1990.

Income Taxes

The 1991 loss resulted in a tax recovery for the year. The effective recovery rate decreased slightly to 29.1% from 30.0% in 1990.

As at December 31, 1991, Domtar's U.S. subsidiaries had accumulated U.S. $120 million of losses for which no tax benefit has been recorded. Of these losses, U.S. $26 million can be utilized to reduce its taxable income in future years up to and including 2004, U.S. $43 million to 2005 and U.S. $51 million to 2006.

1990 Compared with 1989

Net Loss

The net loss in 1990 was $294 million ($3.44 per Common Share) compared with net earnings of $33 million or $0.23 per Common Share in 1989.

Continuing operations incurred a net loss of $333 million ($3.87 per Common Share) compared with net earnings of $15 million ($0.04 per Common Share) in 1989. The 1990 results reflect the $237 million ($2.66 per Common Share) after-tax impact of major write-downs and provisions, which are reflected in the financial statements on a pre-tax basis as unusual items, and a decline in operating results.

Earnings from discontinued operations were $39 million ($0.43 per Common Share), compared with $18 million ($0.19 per Common Share) in 1989, and include a net after-tax gain of $30 million from the sale of the salt business and a specialty chemicals subsidiary.

The unusual items reflect a $254 million write-down of certain of the Corporation's assets, primarily in the packaging and construction materials segments, a $25 million provision for environmental remediation programs to be undertaken over a period of years, mainly in the wood preserving business, and a $55 million provision for additional termination, pension and other costs associated with continuing the Corporation's organizational restructuring program which began in late 1989. The unusual charge of $35 million in the 1989 results reflected the first phase of the organizational restructuring.

Operating Results

Sales from continuing operations in 1990 declined by 8% to $2,314 million from $2,515 million in 1989. An operating loss before unusual items of $45 million was incurred compared to an operating profit before unusual items of $124 million in 1989, due to more unfavourable market conditions for all business lines.

Pulp and Paper Products

Sales of fine papers in 1990 increased by 4% to $820 million from $786 million in 1989, as the impact of increased shipments from Windsor more than offset the effect of lower selling prices and a higher proportion of export sales. After reaching peak levels in mid-1989, selling prices for commodity grades of fine papers declined rapidly during the second half of 1989. Selling prices recovered partially during 1990 but remained, on average, below 1989 levels. A factor contributing to the improvement in selling prices was a temporary tightening of supply as a result of many North American producers taking downtime to carry out major maintenance and capital work, including conversion from acid to alkaline paper-making. Domtar began this process of conversion at its Windsor mill in 1990.

Operating profit before unusual items for fine papers in 1990 declined to $1 million from $47 million in 1989, due to lower selling prices, a higher proportion of export sales, increased depreciation expense for Windsor and a temporary shutdown of the pulp mill and bark boiler at Windsor in the second quarter of 1990 to carry out major repairs. These factors were partially offset by the higher shipments and improving productivity efficiencies at Windsor. The unusual charges attributable to the fine papers segment relate to the cost of the organizational restructuring.

Sales of market pulp, newsprint and groundwood specialty papers in 1990 declined by 12% to $451 million from $514 million in 1989, due to lower selling prices for market pulp, newsprint and groundwood specialty papers as well as lower shipments of market pulp as a result of the more unfavourable market conditions. Selling prices for northern bleached softwood pulp started to decline rapidly in the fourth quarter of 1990, and by year-end were 15% below the level on January 1. Shipments of newsprint increased due to tight supply caused by labour disruptions in Eastern Canada in the second half of 1990. As a result of the net unfavourable sales impact of these factors, operating profit before unusual items in 1990 declined to $1 million from $49 million in 1989. Unusual charges of $57 million in this segment relate to the write-down of assets which are considered uncompetitive and also to the cost of the organizational restructuring.

Packaging

Sales in 1990 decreased by 13% to $430 million from $494 million in 1989. Market demand for corrugated containers in Canada declined by 6% in 1990. This factor, combined with increased pressure from U.S. imports, resulted in intensive market share and pricing competition, especially in the second half of 1990, and operating profit before unusual items in 1990 was reduced to $14 million from $51 million in 1989. The 1990 results include unusual charges amounting to $98 million for the write-down of certain containerboard assets and the cost of the organizational restructuring. The asset write-downs reflect the increasing focus of the packaging business on facilities which are positioned to respond to customer demand for recycled products and to maximize the overall cost competitiveness of the integrated business.

Construction Materials

Sales in 1990 declined by 15% to $613 million from $721 million in 1989 and the operating loss before unusual items increased to $61 million from $23 million in 1989. Operating results for gypsum declined. The severe industry overcapacity which already existed in North America and the resulting market share and pricing competition were intensified by a further slowdown in construction activity. U.S. housing starts on an annualized basis fell below the one million level in the month of December 1990, continuing the downward trend.

Results for decorative panels declined due to the effect of weaker market conditions, preproduction costs and start-up problems relating to a major capacity expansion at the Huntsville, Ontario plant and increased general expenses to support the expansion of the business. The wood preserving business generated an operating profit before unusual items compared to an operating loss before unusual items in 1989 as a result of higher selling prices and the non-recurrence of certain fixed asset write-downs reflected in 1989.

The 1990 unusual charges of $140 million in the construction materials sector include the write-down of certain gypsum board assets due to the impact of continuing industry overcapacity, a provision for the loss on the sale of the residential roofing business, the cost of undertaking environmental remediation programs at certain wood preserving and gypsum sites over a number of years, which have been provided for as required by a new Canadian accounting standard, and the cost of the organizational restructuring.

Other Expenses

Interest Expense

Interest charged against earnings in 1990 increased to $95 million from $71 million due to a reduction in the amount of interest capitalized following the completion of the Windsor rehabilitation project in the fourth quarter of 1989. Total interest costs, including capitalized interest, increased to $101 million from $95 million in 1989 due to the increased level of debt.

Income Taxes

The 1990 loss from continuing operations resulted in a tax recovery for the year. The effective recovery rate is 30.0% and reflects the statutory Canadian income tax rate of 39.9% moderated by the impact of being unable to record in earnings the full tax benefit of the U.S. losses. In 1989, the abnormally low effective rate of 9.9% reflected the high proportion of total earnings attributable to foreign earnings other than U.S., as such earnings are taxed at lower rates.

As at December 31, 1990, the Corporation's U.S. subsidiaries had accumulated U.S. $63 million of losses for which no tax benefit had been recorded and which can be utilized to reduce taxes in future years, up to and including the year 2004. In addition, the Corporation has $44 million of recorded but unclaimed Canadian investment tax credits which, if not used, will expire in varying amounts until the year 2000.

Liquidity and Capital Resources

Historically, Domtar has had positive net cash flow from operations. In 1991, however, Domtar suffered a shortfall of $18 million in its net cash flow from operations, resulting primarily from an operating loss of $125 million. As a result of a reduced capital spending program in 1991, Domtar's cash shortfall before financing and divestiture proceeds declined to $119 million in 1991, compared to $167 million in 1990. Capital spending in 1991 was $93 million compared to $200 million in 1990. Major capital expenditures in 1991 consisted of $27 million for the construction of a chlorine dioxide plant relating to the environmental compliance programs at the Lebel-sur-Quévillon, Québec kraft pulp mill and $13 million to complete the expansion of the decorative panels plant at Huntsville,

Ontario. In addition, Domtar conserved cash in 1991 by suspending its Common Share cash dividend. In 1991, proceeds from divestitures amounted to $8 million compared to $169 million in 1990. In order to meet its cash needs for 1991, the Corporation issued in July 1991, 11.1 million Common Shares for net proceeds of $97 million. In addition, the Corporation's total indebtedness, net of short-term investments, increased slightly to $1,091 million as at December 31, 1991 from $1,081 million as at December 31, 1990. Domtar's total debt, including retractable preferred shares, to total capitalization ratio increased from 57% in 1990 to 61% in 1991.

At December 31, 1991, the Corporation had short-term investments amounting to $115 million. Also, the Corporation's existing revolving credit facility with a syndicate of financial institutions provides for a committed line of $340 million. Under the terms of the agreement, the maximum availability under this facility was reduced from $420 million on January 31, 1992 and will continue to reduce annually on January 31 of each year by approximately equal amounts until its termination on January 31, 1996. As at December 31, 1991, $300 million was outstanding under this facility. The existing credit facility will be replaced as part of the Financing Program described below.

Financing Program

Domtar has developed a financing program (the "Financing Program") to augment its shareholders' equity, increase borrowing capacity and lengthen the average maturity of its bank indebtedness in order to meet its anticipated capital needs and cash requirements over the next several years. The Financing Program consists of the following principal elements:

(1) a new $500 million revolving credit facility, (the "New Credit Facility") to replace the existing revolving credit facility;

(2) the issuance of U.S. $175 million in aggregate amount of seven-year notes (the "Notes");

(3) the conversion of the $150 million loan to the Corporation from Société de développement industriel du Québec ("SDI") into the Corporation's Series C Preferred Shares; and

(4) the issuance in Canada of Common Shares of the Corporation for gross proceeds of approximately $150 million.

The completion of each of the four components of the Financing Program is contingent on the completion of the other components.

New Credit Facility

The Corporation has received confirmation from the syndicate agent of the commitments of a syndicate of financial institutions to provide, subject to certain conditions, including the completion of all other components of the Financing Program, the New Credit Facility. The principal terms and conditions relating to the New Credit Facility are set out in Note 23 to the Notes to the Consolidated Financial Statements, and include a limitation on the Corporation's ability to pay dividends on its Common Shares.

Note Offering

As part of the Financing Program, the Corporation expects to make an underwritten public offering in the United States of the Notes in an aggregate principal amount of U.S. $175 million. The indenture under which the Notes will be issued will also contain certain restrictive covenants, including a limitation on the Corporation's ability to pay cash dividends on its Common Shares.

Series C Preferred Shares

The Corporation, subject to completion of the other components of the Financing Program, will issue its Series C Preferred Shares with an aggregate paid-in capital of $150 million upon conversion of the existing non-interest bearing SDI loan. No dividends will accrue on the Series C Preferred Shares until June 30, 1995. The new preferred shares will be redeemable at the option of the Corporation at any time and at the option of the holder on June 30, 2000. In the event of a redemption at the option of the holder, the redemption price may, at the option of the Corporation, be paid in cash or by the issuance of Common Shares.

Common Share Offering

The Corporation expects to make an underwritten public offering of the Corporation's Common Shares in Canada to raise approximately $150 million in new equity capital. Each of the Corporation's principal shareholders has informed the Corporation that it intends to purchase its pro rata share of the Common Shares offered so as to maintain its current percentage ownership interest.

Preferred Shares Redemption

Approximately $71 million of the cash proceeds from the Financing Program will be used to fund the redemption by the Corporation of its $1 Cumulative Redeemable Preference Shares (the "Preference Shares") and the redemption at the option of the holders of its Retractable Preferred Shares, Series A (the "Series A Preferred Shares") on April 2, 1992.

Outlook

The Corporation's management has been working with its Canadian and U.S. financial advisors to develop and implement the Financing Program. Although completion of the Financing Program is dependent upon negotiation and execution of definitive agreements and satisfaction of various closing conditions and is subject to financial and other market conditions, management believes that the Financing Program will be successfully completed. Nevertheless, management has been discussing with certain lenders alternative short-term financing in the event the Financing Program cannot be completed in a timely fashion. Management believes that it will be able to arrange alternative short-term financing which will enable Domtar to meet its foreseeable cash requirements for 1992 while longer-term financing is arranged.

Dividends and Common Stock Prices

	1991	1990	1989	1988	1987
Dividends paid per common shares	**$ —**	$0.3049	$0.4878	$0.4878	$0.4878
Share Price at year-end	**$7.75**	$ 9.50	$ 13.00	$ 14.62	$ 14.25

Quarterly dividends and share prices for the common shares of Domtar during 1991 and 1990 were as follows:

1991	1st Qr	2nd Qr	3rd Qr	4th Qr
Cash dividend declared per common share	$ —	$ —	$ —	$ —
Market price				
Toronto & Montréal stock exchanges				
High	10	$9\frac{3}{4}$	$9\frac{1}{4}$	$8\frac{7}{8}$
Low	$8\frac{5}{8}$	$8\frac{3}{8}$	$7\frac{1}{2}$	7
New York Stock Exchange (U.S.$)				
High	$8\frac{5}{8}$	$8\frac{1}{2}$	$8\frac{1}{8}$	$7\frac{3}{4}$
Low	$7\frac{5}{8}$	$7\frac{1}{4}$	$6\frac{3}{4}$	$6\frac{1}{8}$

1990				
Cash dividend declared per common share	$0.1219	$0.0610	$0.0610	$0.0610
Market price				
Toronto & Montréal stock exchanges				
High	$13\frac{1}{2}$	$13\frac{1}{2}$	$13\frac{1}{4}$	$10\frac{1}{2}$
Low	$11\frac{7}{8}$	$11\frac{1}{2}$	9	$9\frac{1}{4}$
New York Stock Exchange (U.S.$)				
High	$11\frac{3}{8}$	$11\frac{1}{2}$	$11\frac{3}{8}$	9
Low	10	10	$7\frac{7}{8}$	$7\frac{7}{8}$

Consolidated Statement of Earnings

Year ended December 31 (millions of Canadian dollars, except per share amounts)

	1991	1990	1989
Sales	$1,804	$ 2,314	$ 2,515
Operating expenses			
Cost of sales	1,581	1,936	1,991
Selling, general and administrative	171	230	235
Research and development	8	9	10
Amortization (note 2)	169	184	155
	1,929	2,359	2,391
Operating profit (loss) before unusual items	(125)	(45)	124
Unusual items (note 3)	—	334	35
Operating profit (loss)	(125)	(379)	89
Sundry (income) expense, net	(4)	1	—
Interest expense (note 4)	88	95	71
Earnings (loss) from continuing operations before income taxes and minority interest	(209)	(475)	18
Income tax provision (recovery) (note 5)	(61)	(142)	2
Earnings (loss) from continuing operations before minority interest	(148)	(333)	16
Minority interest	—	—	1
Earnings (loss) from continuing operations	(148)	(333)	15
Discontinued operations, net of income taxes (note 6)	—	39	18
Net earnings (loss)	(148)	(294)	33
Dividend requirements of preferred shares	12	12	12
Net earnings (loss) applicable to common shares	$ (160)	$ (306)	$ 21
Per common share (note 14)			
Earnings (loss) from continuing operations	$(1.69)	$ (3.87)	$ 0.04
Net earnings (loss)	$(1.69)	$ (3.44)	$ 0.23
Dividends declared	$ —	$0.5049	$0.4878

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

December 31 (millions of Canadian dollars)

Assets	*1991*	*1990*
Current assets		
Short-term investments	$ 115	$ 2
Receivables, net of allowance for doubtful accounts of $9 (1990 - $10)	212	279
Inventories (note 7)	300	330
Prepaid expenses	5	7
	632	618
Investments and advances	16	17
Property, plant and equipment (note 8)	2,038	2,115
Intangible assets and deferred charges (note 9)	56	74
	$2,742	$2,824

Liabilities and shareholders' equity	1991	1990
Current liabilities		
Bank indebtedness	$ 8	$ 18
Short-term financing	—	69
Trade and other payables (note 10)	263	325
Income and other taxes payable	20	25
Long-term debt due within one year (note 11)	17	10
	308	447
Long-term debt (note 11)	1,181	986
Other long-term liabilities (note 12)	68	67
Deferred credits	112	123
Deferred income taxes	209	277
Shareholders' equity		
Preferred shares (note 14)	146	146
Common shares (note 14)		
Authorized - unlimited number		
Issued and outstanding - 100,892,045 shares (1990 - 87,035,867)	559	436
Retained earnings (note 15)	178	361
Accumulated foreign currency translation adjustments (note 16)	(19)	(19)
	864	924
	$2,742	$2,824

See accompanying notes to consolidated financial statements

Approved by the Board:

Jean Campeau

Jean Campeau, Director

Pierre Desjardins

Pierre Desjardins, Director

Year ended December 31 (millions of Canadian dollars)

Consolidated Statement of Cash Flows

	1991	1990	1989
Cash provided by (used for):			
(A) Operations	$ (18)	$ 77	$ 212
(B) Investments	(81)	(47)	(307)
Dividend payments	(12)	(39)	(56)
Cash flow before financing	(111)	(9)	(151)
(C) Financing	234	6	122
Increase (decrease) during the year	123	(3)	(29)
Net cash position at beginning of year	(16)	(13)	16
Net cash position at end of year	$ 107	$ (16)	$ (13)
Represented by:			
Short-term investments	$ 115	$ 2	$ 35
Bank indebtedness	(8)	(18)	(48)
	$ 107	$ (16)	$ (13)

	1991	1990	1989
(A) *Operations*			
Net earnings (loss)	$(148)	$(294)	$ 33
Non-cash items:			
Amortization	169	187	171
Unusual items	—	271	5
Net gain on divestiture of businesses	(1)	(52)	(17)
Deferred income taxes	(66)	(128)	23
Other	1	4	(9)
Cash flow (used for) from operations	$ (45)	$ (12)	$ 206
Cash provided by operating working capital	27	89	6
Net cash flow (used for) from operations	$(18)	$ 77	$ 212
(B) *Investments*			
Additions to property, plant and equipment	$ (93)	$(200)	$(322)
Preproduction costs	—	—	(12)
Acquisition of businesses	—	(6)	(73)
Divestiture proceeds	8	169	102
Divestiture expenses	—	(11)	(5)
Disposal of property, plant and equipment	6	3	13
Other	(2)	(2)	(10)
	$ (81)	$ (47)	$(307)
(C) *Financing*			
Change in short-term financing	$ (69)	$(104)	$ 65
Change in revolving credit facility	219	16	65
Notes issued, net of expenses	—	—	30
Term loan proceeds, net of expenses	—	115	—
Debentures and notes repaid	(15)	(25)	(41)
Common shares issued, net of expenses	99	3	—
Other	—	1	3
	$ 234	$ 6	$ 122

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows (Continued)

Year ended December 31 (millions of Canadian dollars)

	1991	1990	1989
Cash provided by operating working capital			
Receivables	$ 67	$ 77	$ 25
Inventories	30	52	(31)
Prepaid expenses	2	2	(2)
Trade and other payables	(67)	(2)	22
Income and other taxes payable	(5)	—	3
	27	129	17
Add back:			
Operating working capital at date of purchase of businesses acquired	—	—	1
Operating working capital at date of sale of businesses divested	—	(41)	(9)
Foreign currency translation adjustments relating to operating working capital of self-sustained operations	—	1	(3)
	$ 27	$ 89	$ 6

Consolidated Statement of Retained Earnings

Year ended December 31 (millions of Canadian dollars)

	1991	1990	1989
Balance at beginning of year	$ 361	$ 694	$717
Net earnings (loss)	(148)	(294)	33
	213	400	750
Deduct: Cash dividends declared			
Preferred shares	12	12	12
Common shares	—	27	44
Stock dividend on common shares	20	—	—
Expenses on issue of shares, net of income tax recovery of $1	3	—	—
	35	39	56
Balance at end of year	$ 178	$ 361	$694

See accompanying notes to consolidated financial statements

1 Summary of significant accounting policies

The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of Domtar, differ from those in the United States as explained in note 21.

Basis of consolidation

The financial statements include the accounts of Domtar Inc. (the Corporation) and all its subsidiaries (collectively, Domtar).

Translation of foreign currencies

For foreign subsidiaries which are considered financially and operationally self-sustaining, the current-rate method of translation of foreign currencies is followed. Therefore all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are deferred in an "Accumulated foreign currency translation adjustments" account in shareholders' equity.

The gains and losses resulting from the translation of foreign currency transactions of the Corporation and its Canadian subsidiaries are included in net earnings, except for those on long-term debt denominated in foreign currency. For such debt designated as a hedge of the net investment in foreign subsidiaries, exchange gains and losses are included in the "Accumulated foreign currency translation adjustments" account. For the remaining long-term debt denominated in foreign currency, exchange gains and losses are deferred and amortized over the remaining term of the related obligation.

Valuation of inventories

Inventories of operating and maintenance supplies and raw materials are valued at average cost. Work in process and finished goods are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses.

Property, plant and equipment and amortization

Property, plant and equipment are recorded at cost. Interest cost is capitalized on additions to property and plant which are in excess of $10 million and for which the period of construction exceeds one year. The interest rate used is equal to the weighted average of the interest rates on long-term debt. Assets under construction represent those additions to property and plant on which interest is capitalized.

For timber limits, amortization is provided for on the unit of production method. For all other assets, amortization is provided for on the straight-line method using rates based on the estimated useful lives of the assets which are generally as follows:

Buildings	Up to 40 years
Machinery and equipment	Up to 20 years

The amortization expense is reported net of the amount of the amortization of deferred credits related to government grants and investment tax credits. No amortization is recorded on assets under construction.

Intangible assets and deferred charges

Intangible assets and deferred charges are recorded at cost. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding twenty-five years. Expenses incurred in issuing long-term debt are amortized on a straight-line basis over the term of the related obligations. Preproduction costs, including training and start-up expenses, on projects in excess of $150 million are deferred and amortized on a straight-line basis over a five-year period commencing with the start-up of commercial operations.

Deferred credits

Deferred credits comprise government grants and investment tax credits earned in acquiring property, plant and equipment and net interest rate hedging gains and exchange gains on long-term debt. Government grants and investment tax credits are amortized on the same basis as the related property, plant and equipment while net interest rate hedging gains and exchange gains are amortized over the term of the related debt. Deferred credits are reported net of accumulated amortization.

2 Amortization

	1991	1990	1989
Amortization of property, plant and equipment	$153	$164	$137
Amortization of goodwill and other intangibles	2	6	6
Amortization of preproduction costs	14	14	12
Continuing operations	169	184	155
Discontinued operations	—	3	16
	$169	$187	$171

3 Unusual items

	1991	1990	1989
Site restoration costs	$ —	$ 25	$ —
Write-down of assets	—	254	—
Restructuring charge	—	55	35
	$ —	$334	$ 35

Site restoration costs

Phased remediation programs are being studied or undertaken at certain wood preserving and gypsum sites. A charge to 1990 earnings was recorded for the reasonably determinable costs, to be incurred over a period of years, for these known environmental obligations.

Write-down of assets

This amount was comprised of a write-down of goodwill of $68 million, a reduction in the value of property, plant and equipment of $170 million and losses of $16 million related to the divestiture of the roofing business.

Restructuring charge

The organizational restructuring plan initiated in the fourth quarter of 1989, and which was extended in 1990, resulted in a substantial reduction in the number of permanent positions. The related restructuring charge represented severance, pension (1990 - $12 million; 1989 - $5 million) and other costs associated with the staff reductions.

4 *Interest expense*

	1991	1990	1989
Interest on long-term debt	$ 90	$ 84	$ 74
Less: Amount capitalized	4	6	24
	86	78	50
Interest on other indebtedness	2	17	21
	$ 88	$ 95	$ 71

Cash payments for interest, net of the amount capitalized, totalled $88 million in 1991 (1990 - $93 million; 1989 - $72 million).

5 *Income taxes*

The following summarizes Domtar's income tax provisions (recoveries) on earnings (losses) of its Canadian and foreign continuing operations:

	1991	1990	1989
Canada:			
Earnings (loss) from continuing operations before income taxes and minority interest	$(205)	$(368)	$ 28
Income taxes:			
Current	5	5	4
Deferred	(66)	(138)	8
Total income taxes	(61)	(133)	12
Earnings (loss) from continuing operations before minority interest	$(144)	$(235)	$ 16
Foreign:			
Loss from continuing operations before income taxes and minority interest	$ (4)	$(107)	$(10)
Income taxes:			
Current	—	2	1
Deferred	—	(11)	(11)
Total income taxes	—	(9)	(10)
Loss from continuing operations before minority interest	$ (4)	$ (98)	$ —
Total:			
Earnings (loss) from continuing operations before income taxes and minority interest	$(209)	$(475)	$ 18
Income taxes:			
Current	5	7	5
Deferred	(66)	(149)	(3)
Total income taxes	(61)	(142)	2
Earnings (loss) from continuing operations before minority interest	$(148)	$(333)	$ 16

The elements of deferred income taxes are:

	1991	1990	1989
Tax benefit of losses	$ (68)	$(138)	$ —
Tax effect of expenses deducted for income tax purposes and capitalized in the financial statements	1	2	9
Other items	1	(13)	(12)
	$ (66)	$(149)	$ (3)

Effective income tax rates differ from the Canadian statutory income tax rates. The principal factors causing these different income tax rates are as follows:

	1991	1990	1989
Statutory Canadian income tax rate	39.7%	39.9%	40.0%
Canadian manufacturing and processing credit	(3.6)	(2.2)	(5.2)
Tax on large corporations	(2.1)	(0.8)	11.5
Foreign income taxed at lower rates	3.6	2.3	(66.4)
Unrecorded tax benefit of U.S. losses	(8.8)	(9.3)	34.6
Other	0.3	0.1	(4.6)
Effective income tax rate	29.1%	50.0%	9.9%

The Corporation does not provide for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

Cash payments for income taxes in 1991 amounted to $9 million (1990 - $9 million; 1989 - $6 million).

Unrecorded tax benefit of losses
At December 31, 1991, United States subsidiaries have losses carried forward of approximately U.S. $120 million for which the tax benefit has not been reflected in earnings. Of these losses, U.S. $26 million expire in 2004, U.S. $43 million in 2005 and U.S. $51 million in 2006.

6 *Discontinued operations*

During 1989, Domtar disposed of its 50% interest in a coal tar joint venture, of the majority of its specialty chemicals business and of its Energy Group for proceeds of $102 million. During 1990, Domtar disposed of its Sifto salt business and of the balance of its specialty chemicals business for proceeds of $169 million.

Effective September 30, 1989, the results of these businesses, together with the net gain on divestiture, were reflected in the statement of earnings under the caption "Discontinued operations".

The results of the discontinued operations are as follows:

	1991	1990	1989
Sales	$ —	$ 74	$ 218
Operating earnings, net of income taxes (1990 - $6; 1989 - $13)	$ —	$ 9	$ 16
Net gain on divestiture, net of income taxes (1990 - $22; 1989 - $15)	—	30	2
	$ —	$ 39	$ 18

7 Inventories

	1991	1990
Operating and maintenance supplies	$ 76	$ 79
Raw materials	112	127
Work in process and finished goods	112	124
	$ 300	$ 330

8 Property, plant and equipment

	1991			1990
	Cost	Accumulated amortization	Net	Net
Buildings	$ 757	$ 227	$ 530	$ 516
Machinery and equipment	2,545	1,156	1,389	1,474
Timber limits and land	89	14	75	78
Assets under construction	44	—	44	47
	$3,435	$1,397	$2,038	$2,115

9 Intangible assets and deferred charges

	1991	1990
Goodwill and other intangibles	$ 118	$ 120
Debt issue expenses	15	15
Preproduction costs	71	71
	204	206
Less: Accumulated amortization	148	132
	$ 56	$ 74

10 Trade and other payables

	1991	1990
Trade accounts payable	$ 128	$ 131
Accrued vacation pay	29	29
Accrued interest	26	25
Provision for restructuring charge, excluding pension-related costs	14	42
Payables on capital projects	8	12
Other	58	86
	$ 263	$ 325

11 *Long-term debt*

	Maturity	1991	1990
Secured debentures			
11 1/2% Series "G"	1995	$ 21	$ 23
10 1/8% Series "H" (U.S. $22; 1990 - U.S. $24)	1996	25	28
12 3/4% Series "I" (U.S. $15; 1990 - U.S. $18)	1997	17	21
		63	72
Unsecured debentures, notes and term loan			
10.35% Debentures	2006	94	97
10% Debentures	2011	100	100
10.85% Debentures	2017	86	90
11 1/4% Debentures (U.S. $150; 1990 - U.S. $150)	2017	173	174
9 5/8% Notes (U.S. $100; 1990 - U.S. $100)	1993	116	116
Non-interest bearing Notes	1995-99	150	150
10.2% Term Loan (U.S. $100 ; 1990 - U.S. $100)	1997	116	116
		835	843
		898	915
Revolving credit facility (U.S. $260; 1990 - U.S. $70)	1992-96	300	81
		1,198	996
Less: Due within one year		17	10
		$1,181	$986

The secured debentures are secured by a floating charge on the assets of the Corporation other than real and immovable properties. The secured debentures, the 10.35% and 11 1/4% Debentures have sinking fund requirements.

The interest rates on the 11 1/4% Debentures, the 9 5/8% Notes and the 10.2% Term Loan were hedged by the Corporation resulting in effective rates of interest of 10.56%, 9.44% and 10.37%, respectively.

The portion of the U.S. dollar long-term debt equivalent to the Corporation's net investment in foreign subsidiaries is designated as a hedge of the foreign exchange risk.

The 10% and 10.85% Debentures each have purchase fund requirements, by which the Corporation has undertaken to purchase quarterly for cancellation, on a reasonable efforts basis, a portion of the aggregate principal amount of the debentures at prices not exceeding par.

In 1985, the Corporation obtained from the Québec government a non-interest bearing loan of $150 million receivable during the period 1985-89 at the rate of $30 million per year, with each portion repayable ten years after its receipt date.

The Corporation has a committed revolving credit facility of $420 million with a syndicate of financial institutions. The maximum availability under the facility reduces annually on January 31 by approximately equal amounts until its termination on January 31, 1996.

Interest rates on the committed revolving credit facility are based on the London Interbank Offered Rate or the U.S. base rate for U.S. dollar borrowings and are based on bankers' acceptances or the bank prime rate for Canadian dollar borrowings.

The committed revolving credit facility reductions over the next five years are described previously. In addition, Debentures and Notes, as at December 31, 1991, due for retirement, sinking fund provisions and purchase fund requirements in each of the next five years amount to:

1992	*1993*	*1994*	*1995*	*1996*
$17	*$136*	*$21*	*$63*	*$57*

12 *Other long-term liabilities*

	1991	*1990*
Provision for site restoration costs	*$19*	*$23*
Pension liability	*49*	*44*
	$68	*$67*

13 *Commitments and contingent liabilities*

The Federal and Québec governments have proposed new environmental regulations that would apply to Domtar's pulp, paper and packaging facilities. The Ontario provincial government has indicated its intention of proposing similar standards. The Federal and Québec regulations, if adopted as proposed, would require Domtar to make substantial capital expenditures to meet new effluent and air emission standards at its current facilities.

Domtar estimates that it will need to make approximately $420 million in capital expenditures to comply with the proposed pulp, paper and packaging regulations, and expects that such expenditures will be made in the 1992-1996 period, assuming the continued operation of existing facilities. The actual amount of capital expenditures, and the timeframe allowed to achieve full compliance, will not be fully known until the new regulations are enacted in final form.

Domtar is required to take remedial action at a number of current and former sites, especially in the wood preserving sector, due to possible soil, sediment or groundwater contamination. The process of investigation and remediation is lengthy and subject to the uncertainties of changing legal requirements, developing technological applications and the allocation of liability among potentially responsible parties. In 1990, Domtar recorded a $25 million provision to cover known and determinable site remediation costs. However, it is likely that additional costs will be incurred over an indeterminate timeframe for site remediation, in excess of the remaining balance of this provision. The actual amount of such costs cannot be estimated with reasonable accuracy.

Furthermore, Domtar is party to environmental and other claims and lawsuits which are being contested.

Management believes that any additional site remediation costs and the resolution of these uncertainties will not have a material adverse effect on Domtar's financial condition.

Minimum rental commitments under operating leases, determined as at December 31, 1991, amount to:

1992	*1993*	*1994*	*1995*	*1996*	*Thereafter*	*Total*
$15	*$10*	*$9*	*$7*	*$6*	*$50*	*$97*

Total rental expense amounted to $23 million in 1991 (1990 - $27 million; 1989 - $29 million).

14 Stated capital

Preference shares
There are 255,609 (1990 - 255,609; 1989 - 283,909) preference shares authorized and outstanding at a stated value of $23.50 per share. The preference shares are non-voting, redeemable at $25.00 per share and carry a cumulative cash dividend of $1.00 per annum. During 1990, 28,300 (1989 - 95,580) preference shares were purchased for cancellation for $0.5 million (1989 - $1.8 million). No shares were purchased during 1991.

The Articles of the Corporation provide that no distribution of capital may be made to the holders of any shares until the holders of the Preference Shares have been paid the paid-up capital thereon plus accrued and unpaid dividends.

Serial preferred shares
The authorized serial preferred shares consist of an unlimited number of preferred shares issuable in series, ranking junior to the preference shares and with all series ranking equal with respect to the payment of dividends and the distribution of assets.

Series A
There are 2,600,000 (1990 and 1989 - 2,600,000) Series A Preferred Shares outstanding at a stated value of $25.00 per share. The Series A Preferred Shares are non-voting, retractable at the holder's option on April 2, 1992 at $25.00 per share, redeemable at the Corporation's option after April 1, 1992 at $25.40 per share, reducing by $0.20 per year, redeemable after April 1, 1994 at $25.00 and carry a cumulative cash dividend per share of $2.25 per annum.

Series B
There are 3,000,000 (1990 and 1989 - 3,000,000) Series B Preferred Shares outstanding at a stated value of $25.00 per share. The Series B Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share. The Series B Preferred Shares carry a cumulative cash dividend equivalent to 72% of the bank prime rate.

The Corporation has undertaken, on a reasonable efforts basis, to purchase quarterly for cancellation 1% of the number of shares outstanding on April 2, 1992 at prices not exceeding $25.00 per share. Any unfulfilled quarterly obligations are carried over only to succeeding quarters of the same calendar year.

Common shares

There is no limit on the number of common shares the Corporation may issue. The changes in the number of outstanding common shares and their aggregate stated value from January 1, 1989 to December 31, 1991 were as follows:

	1991		1990		1989	
	Number of shares	$	Number of shares	$	Number of shares	$
Balance at beginning of year	87,035,867	436	86,717,217	433	86,315,425	429
Shares issued						
Convertible notes	—	—	11,900	—	153,905	1
Stock option plan	—	—	—	—	18,863	—
Employee share purchase plans	304,946	3	306,750	3	229,024	3
Stock dividends	2,439,232	20	—	—	—	—
For cash	11,112,000	100	—	—	—	—
Balance at end of year	100,892,045	559	87,035,867	436	86,717,217	433
Book value per common share at end of year		$7.12		$8.94		$12.78

Book value per common share is the sum of the stated value of common shares, retained earnings and accumulated foreign currency translation adjustments divided by the number of common shares outstanding at the year-end.

Earnings per share are based on the following weighted average number of shares outstanding during the year, 1991 - 94,699,944 shares (1990 - 89,016,830; 1989 - 88,699,740). These averages have been retroactively adjusted to reflect the stock dividend of 0.025 common share for each common share outstanding on December 15, 1991.

Stock Option Plan

Under a stock option plan introduced during 1988, options may be granted to certain full-time executive employees to purchase common shares of the Corporation at the market value at the date of the grant less a discount not exceeding the maximum permitted by regulatory authorities. One-fourth of the options granted may be exercised at the end of each twelve-month period following the date of the grant.

Simultaneously with the grant of an option, employees are also granted Stock Appreciation Rights (SARs) equivalent to one-half of the common shares subject to such option. An SAR entitles the holder to receive payment, either in cash or in common shares, or in a combination thereof, of an amount equal to the excess of the market value of a common share on the day of exercise of the SAR over the related option price. One-fourth of the SARs granted may be exercised at the end of each twelve-month period following the first twelve-month period after the date of the grant. The exercise of an SAR reduces the number of shares to which an

option relates on a one-SAR-for-two-shares basis while the exercise of an option for one share cancels one-half of a related SAR. Both the options and the SARs will expire ten years after the grant date except in special circumstances. Common shares obtained through the exercise of options or SARs are subject to a mandatory twelve-month retention period.

At December 31, 1991, 2,000,000 (1990 and 1989 - 2,000,000) common shares are authorized for issuance under the plan. Options granted during 1991, 1990 and 1989 were at an option price equal to the market price at the date the options were granted. Options for 290,055 shares are exercisable at December 31, 1991. Common shares available for future granting of options were 523,659, 1,341,473 and 1,545,823 at December 31, 1991, 1990 and 1989, respectively.

Changes during 1991 in the number of options outstanding are shown below. As indicated above, SARs are alternatively available in amounts equivalent to one-half of the number of options outstanding.

	Number of options	*Option price*
Outstanding at beginning of year	*639,664*	*$13.19 - $15.00*
1991 movements:		
Granted	*830,040*	*9.09*
Cancelled	*(12,226)*	
Outstanding at end of year	*1,457,478*	*$ 9.09 - $15.00*

Employee Share Purchase Plans

Employee share purchase plans were introduced in 1988 for substantially all Canadian employees and in 1989 for substantially all U.S. employees. Under the plans, employees other than those eligible for the Stock Option Plan are eligible to purchase common shares at a price of 90% of the market value. Common shares are purchased under the plan on monthly (U.S. plan) or quarterly (Canadian plan) investment dates. Shares purchased under the Canadian plan are subject to a mandatory twelve-month holding period. Employees who hold the shares for eighteen months following the date of acquisition are entitled to receive additional common shares equivalent to 10% of the cost of such shares. At December 31, 1991, 1,150,000 (1990 and 1989 - 1,150,000) common shares are authorized for issuance under the plans. During the year, 304,946 (1990 - 306,750; 1989 - 229,024) common shares were issued under the plans at an average price of $8.10 (1990 - $10.31; 1989 - $13.19) per share.

15 *Retained earnings*

The Trust Deeds securing the sinking fund debentures contain a restriction on the payment of dividends, other than stock dividends, on common shares. Under this restriction, $88 million of retained earnings at December 31, 1991 was available to pay common share dividends.

16 Foreign exchange

Accumulated foreign currency translation adjustments	*1991*	*1990*	*1989*
Balance at beginning of year	*$(19)*	*$(19)*	*$(19)*
Effect of changes in exchange rates during the year:			
On the net assets of foreign subsidiaries	*(1)*	*1*	*(11)*
On certain long-term debt denominated in foreign currency designated as a hedge of the net investment in foreign subsidiaries	*1*	*(1)*	*11*
Balance at end of year	*$(19)*	*$(19)*	*$(19)*

Forward exchange contracts

Gains and losses on forward exchange contracts, which serve to hedge certain foreign currency exposures in respect of anticipated United States dollar revenues, are recognized on maturity and are included in sales. These contracts mature throughout 1992 and the contracted rates average $1.23. Based on the forward rates of exchange at December 31, 1991, there was a net unrealized gain of $7 million on outstanding forward exchange contracts totalling U.S. $135 million.

17 Pension and postretirement benefit plans

Domtar has several pension plans covering substantially all employees. These plans are generally contributory in Canada and non-contributory in the United States. Plan benefits are based primarily on years of service and each employee's highest average eligible earnings during any consecutive sixty-month period. The assets of the pension plans are invested primarily in listed common stocks and fixed income securities.

The pension expense and the obligation for pension benefits are actuarially determined using management's best estimate assumptions. These include a discount rate of 7.5% (1990 and 1989 - 7.5%) to calculate the present value of the projected benefit obligation, a long-term average annual rate of return of 7.5% (1990 and 1989 - 7.5%) on plan assets and an average annual rate of increase of 5.0% (1990 and 1989 - 5.0%) in compensation levels.

Pension expense

The components of pension expense are as follows:

	1991	*1990*	*1989*
Service cost - present value of obligation for pension benefits earned by plan members during year	*$ 10*	*$ 12*	*$ 12*
Interest cost - change during year in present value of obligation for pension benefits earned in prior years	*42*	*40*	*36*
Assumed return from investing pension fund assets during year	*(39)*	*(38)*	*(34)*
Other components of pension expense, net	*1*	*2*	*1*
Net pension expense	*14*	*16*	*15*
Additional pension expense included in the restructuring charge (note 3)	*—*	*12*	*5*
	$ 14	*$ 28*	*$ 20*

The actual return (loss) generated by investing pension fund assets during 1991 was $86 million (1990 - $(10 million); 1989 - $78 million), resulting in an excess (shortfall) of $47 million (1990 - $(48 million); 1989 - $44 million) compared to the assumed return. This excess (shortfall) is deferred and amortized in future years, on the basis that the assumed return is the most realistic long-term expectation and that short-term market gains or losses should not distort the pension expense for the year.

Funding

Domtar's funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund past service liabilities over periods not exceeding those permitted by the applicable regulatory authorities. Past service liabilities primarily arise from improvements to plan benefits.

The funded status of the plans is as follows:

	At December 31, 1991 For plans in which		*At December 31, 1990 For plans in which*	
	Assets exceed benefits earned	*Benefits earned exceed assets*	*Assets exceed benefits earned*	*Benefits earned exceed assets*
Plan assets at fair value	$563	$ 10	$22	$504
Deduct: Projected benefit obligation:				
Present value of benefits earned to date based on current compensation levels				
Vested	466	29	14	477
Non-vested	27	1	1	26
Accumulated benefit obligation	493	30	15	503
Present value of future increases in compensation levels	53	—	6	44
Projected benefit obligation	546	30	21	547
Plan assets in excess of (less than) projected benefit obligation	$ 17	$(20)	$ 1	$(43)

The previous excess (deficiency) is comprised of:

	At December 31, 1991 For plans in which		At December 31, 1990 For plans in which	
	Assets exceed benefits earned	*Benefits earned exceed assets*	*Assets exceed benefits earned*	*Benefits earned exceed assets*
Amounts to be amortized over the expected average remaining service life of plan members and reflected in future earnings				
Net asset (obligation) at January 1, 1987, the implementation date of the current accounting policy	$ 17	$ (5)	$ 3	$ 11
Prior service cost of retroactive benefits resulting from plan amendments since January 1, 1987	(39)	(2)	—	(50)
Net gain (loss) from better (worse) than projected performance	74	1	2	36
	52	(6)	5	(3)
Net pension liability included on balance sheet, representing pension costs expensed in excess of amounts funded	(35)	(14)	(4)	(40)
	$ 17	$(20)	$ 1	$(43)

Other postretirement benefits

Domtar provides group health care and life insurance benefits to certain retirees, their spouses and unmarried dependents. The cost of providing these benefits, which is charged against earnings and funded in the year incurred, amounted to $4 million in 1991 (1990 and 1989 - $3 million).

18 Related parties

Domtar is not aware of having entered into any transaction other than on normal commercial terms and in the ordinary course of business with either of its major shareholders, Société générale de financement du Québec (directly and indirectly through its wholly-owned subsidiary Dofor Inc.) and Caisse de dépôt et placement du Québec or any party related thereto.

19 Acquisition of businesses

On April 2, 1990, the Corporation purchased the assets of Jellco Packaging Corp., a Canadian manufacturer of corrugated packaging products. The cost of this acquisition was $6 million.

In 1989, the Corporation purchased three sawmills from Forex Inc. The cost of this acquisition, together with three smaller acquisitions in the construction materials sector, totalled $73 million, net of cash acquired.

All of the above transactions have been accounted for using the purchase method. The results of operations since the date of purchase have been included in the consolidated financial statements.

The following is a summary of the assigned values of the assets purchased:

	1991	1990	1989
Total assets	$ —	$5	$59
Goodwill	—	1	14
Assets purchased for cash	$ —	$6	$73

20 Segmented information

The operations and assets of Domtar by industry segment and by geographic area are as follows:

By industry segment	*1991*	*1990*	*1989*	*1988*	*1987*
Trade sales					
Pulp and paper products					
Fine paper	$ 671	$ 820	$ 786	$ 698	$ 607
Newsprint and groundwood specialties	282	313	357	404	338
Market pulp	93	138	157	112	128
	1,046	1,271	1,300	1,214	1,073
Packaging	375	430	494	496	453
Construction materials	383	613	721	789	845
	$1,804	$2,314	$2,515	$2,499	$2,371
Inter-segment sales (A)	$ 9	$ 18	$ 27	$ 29	$ 28
Operating profit (loss) (B)					
Pulp and paper products					
Fine paper	$ (59)	$ 1	$ 47	$ 44	$ 56
Newsprint and groundwood specialties and market pulp	(29)	1	49	78	70
	(88)	2	96	122	126
Packaging	4	14	51	75	54
Construction materials (C)	(41)	(61)	(23)	1	93
Unusual items (D)	—	(334)	(35)	—	—
	$ (125)	$ (379)	$ 89	$ 198	$ 273

	1991	1990	1989	1988	1987
Identifiable assets (E)					
Pulp and paper products	$1,750	$1,900	$2,031	$1,654	$ 821
Packaging	299	315	411	370	357
Construction materials	501	512	559	546	583
	2,550	2,727	3,001	2,570	1,761
Assets under construction	44	47	74	266	735
Corporate	148	50	84	96	171
Discontinued operations	—	—	120	254	246
	$2,742	$2,824	$3,279	$3,186	$2,913
Amortization					
Pulp and paper products	$ 117	$ 118	$ 96	$ 58	$ 36
Packaging	19	27	24	23	19
Construction materials	33	39	35	34	32
	$ 169	$ 184	$ 155	$ 115	$ 87
Property, plant and equipment acquired (excluding businesses purchased)					
Pulp and paper products	$ 60	$ 87	$ 152	$ 288	$ 435
Packaging	9	35	55	33	26
Construction materials	23	74	94	52	31
	92	196	301	373	492
Corporate	1	1	6	5	4
Discontinued operations	—	3	15	29	15
	$ 93	$ 200	$ 322	$ 407	$ 511
By geographic area					
Trade sales					
Canada					
Within Canada	$1,084	$1,404	$1,667	$1,707	$1,591
To United States	465	566	469	429	386
Offshore	67	82	86	54	38
	1,616	2,052	2,222	2,190	2,015
United States	188	262	291	307	355
Other	—	—	2	2	1
	$1,804	$2,314	$2,515	$2,499	$2,371
Intercompany sales between geographic areas (A)	$ 43	$ 69	$ 54	$ 97	$ 114

	1991	1990	1989	1988	1987
Operating profit (loss) (B)					
Canada	$ (96)	$ (6)	$ 140	$ 207	$ 240
United States	(38)	(49)	(24)	(19)	23
Other	9	10	8	10	10
	(125)	(45)	124	198	273
Unusual items (D)	—	(334)	(35)	—	—
	$ (125)	$ (379)	$ 89	$ 198	$ 273
Identifiable assets (E)					
Canada	$2,314	$2,470	$2,699	$2,501	$2,125
United States	274	295	362	323	356
Other	6	9	14	12	15
	2,594	2,774	3,075	2,836	2,496
Corporate	148	50	84	96	171
Discontinued operations	—	—	120	254	246
	$2,742	$2,824	$3,279	$3,186	$2,913

(A) Sales reflect transfer prices at market value.

(B) Operating profit (loss) represents sales less allocable expenses before sundry (income) expense, interest expense, income taxes and minority interest.

The comparative figures have been reclassified to reflect the allocation by industry and by geographic segment of corporate expenses which were previously reported as a separate item.

(C) Operating profit of the Construction Materials segment for the year ended December 31, 1988 includes the loss on the sale of the high pressure laminates business of $11 million.

(D) The operating profit (loss) by industry segment for 1990 and 1989 after unusual items is as follows:

	1990	1989
Pulp and paper products		
Fine papers	$ (25)	$ 39
Newsprint, groundwood specialties and market pulp	(59)	42
	(84)	81
Packaging	(88)	45
Construction materials	(207)	(37)
	$(379)	$ 89

(E) Identifiable assets are those which are directly used in segment operations or geographic areas. Corporate assets are principally marketable securities, certain non-trade receivables, prepaid items and other assets.

21 *United States generally accepted accounting principles*

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada which, in the case of Domtar, conform in all material respects with those in the United States, except as set forth below.

(a) ***Earnings adjustments***

	1991	1990	1989
Net earnings (loss) in accordance with Canadian GAAP	$ (148)	$ (294)	$ 33
Pension cost, net of income taxes *(1)*	12	12	12
Unrealized loss on translation of long-term debt, net of income taxes *(2)*	—	(1)	—
Unrealized gain on forward exchange contracts, net of income taxes *(3)*	5	1	—
Net earnings (loss) in accordance with U.S. GAAP	(131)	(282)	45
Dividend requirements of preferred shares	12	12	12
Net earnings (loss) in accordance with U.S. GAAP applicable to common shares	$ (143)	$ (294)	$ 33
Per common share			
Earnings (loss) from continuing operations	$(1.51)	$(3.73)	$0.16
Net earnings (loss)	$(1.51)	$(3.30)	$0.37

(1) *The determination of the net pension cost in accordance with United States GAAP differs with respect to the valuation of plan assets at January 1, 1987 and the basis used to determine the expected return on plan assets.*

(2) *Unrealized gains and losses arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term debt repayable in a foreign currency, are deferred and amortized over the remaining life of the related debt. Under United States GAAP, such gains and losses would be included in earnings.*

(3) *Gains and losses arising on forward exchange contracts are included in earnings only on maturity. Under United States GAAP, unrealized gains and losses would be included in earnings.*

(b) ***Statement of cash flows***

Dividend payments are shown in the statement of cash flows as a separate component of the change in cash for the year. Under United States GAAP, dividend payments are required to be shown as an element of the cash flows from financing activities.

(c) ***Preferred shares***

Preferred shares subject to mandatory redemption provisions or retractable at the holders' option would be reported under a separate caption "Redeemable or retractable preferred shares" under Securities and Exchange Commission reporting requirements. The Corporation's Series A Preferred Shares are retractable at the holder's option on April 2, 1992 at $25.00 per share. As at December 31, 1991, $65 million of these Series A Preferred Shares are outstanding (1990 - $65 million).

The Articles of the Corporation provide that no distribution of capital may be made to the holders of any shares until the holders of the Preference Shares have been paid the paid-up capital thereon plus accrued and unpaid dividends. The Preference Shares are redeemable at $25.00 per share and, as at December 31, 1991, 255,609 shares were outstanding.

(d) ***Pronouncements - Financial Accounting Standards Board***
In December 1987, statement number 96 was issued concerning accounting for income taxes. Its adoption for U.S. GAAP reporting purposes has been postponed three times in order to address concerns raised by interested parties and will now be required only for fiscal years beginning after December 15, 1992, with earlier adoption being optional. While Domtar has not yet determined the effect of the application of this statement, it expects that shareholders' equity determined in accordance with U.S. GAAP will be increased, with a corresponding decrease in deferred income taxes.

In December 1990, statement number 106 was issued concerning accounting for postretirement benefits other than pensions. Its adoption is required for fiscal years beginning with 1993, with earlier adoption being optional. Although Domtar has not yet determined when it will adopt this statement for U.S. GAAP reporting purposes, it expects that the cost of postretirement benefits other than pensions determined in accordance with U.S. GAAP will be increased.

22 *Presentation change*

Certain comparative figures in these financial statements have been reclassified to conform with the presentation used at December 31, 1991.

23 *Subsequent event*

On February 11, 1992, the Corporation received confirmation from the syndicate agent of the commitments of a syndicate of financial institutions (the "Syndicate") whereby, subject to certain conditions, the Syndicate will provide a new $500 million revolving credit facility (the "New Credit Facility").

The New Credit Facility, as more fully described below, is an integral part of a financing program (the "Financing Program") consisting of the following additional principal components:

- the issuance of U.S. $150 million of notes (the "Notes");
- the conversion of the $150 million loan to the Corporation from Société de développement industriel du Québec ("SDI") into the Corporation's Series C Preferred Shares; and
- the issuance of Common Shares for gross proceeds of approximately $150 million.

The completion of each of the four components of the Financing Program is contingent on the completion of the other components.

The following is a brief summary of the Financing Program:

New Credit Facility
The New Credit Facility will be divided into two tranches, an unsecured facility in an amount up to $150 million (the "Unsecured Tranche") and a secured facility in an amount up to $350 million (the "Secured Tranche"). Borrowings under the Secured Tranche will be secured by an assignment of receivables and inventories. The availability of the Secured Tranche will terminate on June 30, 1997. Available credit under the Unsecured Tranche will be reduced to $75 million on December 31, 1995 and will terminate on December 31, 1996. Borrowings under the Unsecured Tranche will be available only if the Secured Tranche is fully utilized.

The terms of the New Credit Facility will provide for certain restrictive covenants, including:

- maintenance of a ratio of total debt to tangible net worth;
- limitation of capital expenditures;
- restrictions on the securing, sale and transfer of property or fixed assets;
- restrictions on cash payments for common share dividends.

In addition, the Corporation will be required to repay all borrowings outstanding under the New Credit Facility within 60 days, in the event that any person other than Société générale de financement du Québec and Caisse de dépôt et placement du Québec, (the "Principal Shareholders"), own more than 35% of the Corporation's voting shares or control the Board of Directors.

Note Offering
As part of the Financing Program, the Corporation expects to make an underwritten public offering in the United States of the Notes in an aggregate principal amount of U.S. $150 million. The indenture under which the Notes will be issued will also contain certain restrictive covenants, including a limitation on payment of dividends on common shares.

Series C Preferred Shares
The existing $150 million non-interest bearing loan to the Corporation from Société de développement industriel du Québec will be converted into Series C Preferred Shares with an aggregate paid-in capital of $150 million. No dividends will accrue on the Series C Preferred Shares until June 30, 1995. The new preferred shares will be redeemable at the option of the holder on June 30, 2000, in which case the redemption price may, at the option of the Corporation, be paid in cash or by the issuance of common shares at a price equal to 87 1/2% of the quoted market price.

Common Share Offering
The Corporation expects to make an underwritten public offering of common shares in Canada to raise $150 million in new equity capital. Each of the Corporation's Principal Shareholders has informed the Corporation that it intends to purchase its pro rata share of the common shares offered so as to maintain their current percentage ownership interest.

Approximately $71 million of the cash proceeds from the Financing Program will be used to fund the redemption by the Corporation of its Cumulative Redeemable Preference Shares and the redemption, at the option of the holders, of its Retractable Preferred Shares, Series A (the "Series A Preferred Shares") on April 2, 1992.

Completion of the Financing Program is dependent upon negotiation and execution of definitive agreements and satisfaction of various closing conditions and is subject to financial and other market conditions. Management believes that the Financing Program will be successfully completed. Nevertheless, in the event the Financing Program cannot be completed in a timely fashion, discussions have been initiated with certain lenders for alternative short-term financing to enable Domtar to meet its foreseeable cash requirements for 1992 while alternative long-term financing is arranged.

To the Shareholders of Domtar Inc.

We have audited the consolidated balance sheets of Domtar Inc. as at December 31, 1991 and December 31, 1990 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1991. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Domtar Inc. as at December 31, 1991 and December 31, 1990 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1991 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants

Raymond, Chabot, Martin, Paré

Chartered Accountants

Montréal, Québec
February 13, 1992

Selected Financial Data

Year ended December 31 (millions of Canadian dollars, except per share amounts)

Canadian GAAP	1991	1990	1989	1988	1987
Sales	$1,804	$2,314	$2,515	$2,499	$2,371
Operating profit (loss) before unusual items	(125)	(45)	124	198	273
Unusual items	—	(334)	(35)	—	—
Operating profit (loss)	(125)	(379)	89	198	273
Earnings (loss) from continuing operations	(148)	(333)	15	103	153
Net earnings (loss)	(148)	(294)	33	111	161
Total assets	2,742	2,824	3,279	3,186	2,913
Long-term debt	1,181	986	804	814	728
Retractable preferred shares	65	65	65	65	65
Per common share					
Earnings (loss) from continuing operations (1)	(1.69)	(3.87)	0.04	1.03	1.60
Net earnings (loss) (1)	(1.69)	(3.44)	0.23	1.12	1.69
Dividends declared	—	0.3049	0.4878	0.4878	0.4878

The selected financial data presented above is prepared in accordance with accounting principles generally accepted in Canada. In the case of the Corporation, these differ in certain respects from accounting principles generally accepted in the United States ("United States GAAP"), as shown in the reconciliation presented in note 21 to the consolidated financial statements on page 54. Earnings data based on United States GAAP follow.

United States GAAP					
Earnings (loss) from continuing operations	$ (131)	$ (321)	$ 25	$ 114	$ 163
Net earnings (loss)	(131)	(282)	45	123	172
Per common share					
Earnings (loss) from continuing operations (1)	(1.51)	(3.73)	0.16	1.15	1.72
Net earnings (loss) (1)	(1.51)	(3.30)	0.37	1.25	1.81

(1) The 1990 and 1989 results include the after-tax impact of unusual items of $(2.66) and $(0.26) per share, respectively.

Selected Production Statistics

Year ended December 31 (metric tons unless otherwise noted)

	1991	1990	1989	1988	1987
Newsprint and groundwood specialty papers	353,768	403,235	374,420	377,236	389,283
Fine and specialty papers	552,778	585,647	526,822	415,755	351,882
Market pulp	134,006	132,200	160,008	128,343	163,779
Containerboard	436,733	419,046	420,983	426,335	411,900
Gypsum board (MMSF)	2,265	2,905	3,138	3,259	3,364

Quarterly Financial Information

Unaudited (millions of Canadian dollars, except per share amounts)

1991	1st	2nd	3rd	4th	Year
Sales	$ 450	$ 468	$ 454	$ 432	$1,804
Gross profit	74	56	58	33	221
Operating loss	(15)	(31)	(33)	(46)	(125)
Loss from continuing operations	(28)	(37)	(39)	(44)	(148)
Net loss	(28)	(37)	(39)	(44)	(148)
Per common share					
Loss from continuing operations	(0.35)	(0.45)	(0.43)	(0.46)	(1.69)
Net loss	(0.35)	(0.45)	(0.43)	(0.46)	(1.69)

1990	1st	2nd	3rd	4th	Year
Sales	$ 611	$ 608	$ 574	$ 521	$2,314
Gross profit	114	92	102	70	378
Operating profit (loss) before unusual items	10	(13)	(4)	(38)	(45)
Unusual items	—	—	—	(334)	(334)
Operating profit (loss)	10	(13)	(4)	(372)	(379)
Loss from continuing operations	(10)	(29)	(21)	(273)	(333)
Net earnings (loss)	20	(29)	(22)	(263)	(294)
Per common share					
Loss from continuing operations (1)	(0.15)	(0.36)	(0.28)	(3.08)	(3.87)
Net earnings (loss) (1)	0.19	(0.36)	(0.28)	(2.99)	(3.44)

(1) The fourth quarter results for 1990 include the after-tax impact of unusual items of $(2.66) per share.

Historical Summary

(millions of Canadian dollars, except per share amounts and statistical data)

			1991
Operations	Sales		$ 1,804
	Expenses and unusual items	Operating expenses	1,929
		Unusual items	—
		Interest expense	88
		Income taxes	(61)
		Other (income) expense, net	(4)
	Earnings (loss) from continuing operations		(148)
	Discontinued operations, net of income taxes		—
	Extraordinary items, net of income taxes		—
	Net earnings (loss)		$ (148)
Financial position	Assets	Cash and short-term investments	$ 115
		Other current assets	517
		Net fixed assets	2,038
		Other assets	72
		Total assets	$ 2,742
	Liabilities and shareholders' equity	Short-term financing	$ —
		Other current liabilities	308
		Long-term debt	1,181
		Other long-term liabilities	68
		Deferred income taxes	209
		Deferred credits and minority interest	112
		Preferred shareholders' equity	146
		Common shareholders' equity	718
		Total liabilities and shareholders' equity	$ 2,742
Cash flows	Operations	Cash flow from operations	$ (45)
		Cash provided by (invested in) operating working capital	27
	Investments	Additions to fixed assets	(93)
		Acquisition of businesses	—
		Divestiture of businesses	8
		Other	4
	Financing	Notes, term loan and equity financing	99
		Change in revolving credit facility	219
		Change in short-term financing	(69)
		Repayments and other, net	(15)
	Dividend payments		(12)
	Increase (decrease) in cash position		$ 123
Other data	Per common share	Earnings (loss) from continuing operations (1)	$ (1.69)
		Net earnings (loss) (1)	$ (1.69)
		Dividends declared	$ —
		Common shareholders' equity	$ 7.12
		Market price	
		Toronto & Montréal stock exchanges	
		High	$ 10
		Low	$ 7
	Ratios	Return on common shareholders' equity	(21)%
		Long-term debt : equity ratio	58 : 42
	Other statistics	Number of common shareholders	11,673
		Number of preferred shareholders	2,021
		Common shares outstanding (millions)	100.9
		Number of employees	10,802
		Salaries, wages and benefits	$ 585

(1) The 1990 and 1989 results include the after-tax impact of unusual items of $(2.66) and $(0.26) per share, respectively.

1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
2,314	2,515	2,499	2,371	2,117	1,908	1,823	1,606	1,477	1,562
2,359	2,391	2,301	2,098	1,895	1,764	1,686	1,531	1,466	1,493
334	35	—	—	—	—	—	—	—	—
95	71	34	11	15	30	33	30	23	18
(142)	2	58	97	88	44	41	13	(4)	22
1	1	3	12	(12)	(18)	(18)	—	(7)	(12)
(333)	15	103	153	131	88	81	32	(1)	41
39	18	8	8	6	8	5	7	7	10
—	—	—	—	8	14	4	(1)	(11)	4
(294)	33	111	161	145	110	90	38	(5)	55
2	35	44	105	252	201	160	88	68	83
616	798	727	685	572	522	496	446	437	499
2,115	2,263	2,207	1,943	1,421	1,063	854	788	779	692
91	183	208	180	53	34	33	28	33	28
2,824	3,279	3,186	2,913	2,298	1,820	1,543	1,350	1,317	1,302
69	238	108	—	—	—	—	—	—	—
378	409	400	429	445	370	252	211	193	221
986	804	814	728	321	276	314	320	331	263
67	27	17	14	—	—	—	—	—	—
277	408	413	361	281	225	192	169	163	164
123	138	158	157	125	77	50	46	45	42
146	147	149	149	150	76	76	12	12	12
778	1,108	1,127	1,075	976	796	659	592	573	600
2,824	3,279	3,186	2,913	2,298	1,820	1,543	1,350	1,317	1,302
(12)	206	309	347	295	205	177	120	87	139
89	6	(82)	(56)	6	8	(26)	6	49	(64)
(200)	(322)	(407)	(511)	(457)	(284)	(133)	(108)	(169)	(164)
(6)	(73)	(24)	(256)	(18)	(16)	(27)	—	(9)	(37)
169	102	15	—	—	—	—	—	—	—
(10)	(14)	(50)	(12)	32	38	17	14	(8)	27
119	33	157	435	284	162	68	3	80	70
16	65	—	—	—	—	—	—	—	—
(104)	65	106	—	—	—	—	—	—	—
(25)	(41)	(11)	(57)	(47)	(34)	(1)	3	(17)	5
(39)	(56)	(56)	(55)	(51)	(37)	(25)	(18)	(28)	(45)
(3)	(29)	(43)	(165)	44	42	50	20	(15)	(69)
(3.87)	0.04	1.03	1.60	1.39	1.03	1.01	0.45	(0.01)	0.57
(3.44)	0.23	1.12	1.69	1.56	1.32	1.14	0.51	(0.07)	0.76
0.3049	0.4878	0.4878	0.4878	0.4732	0.3854	0.2927	0.2439	0.3659	0.4878
8.94	12.78	13.07	12.49	11.36	9.86	8.95	8.10	7.88	8.40
13 1/2	18	16 1/2	25 3/4	18 1/8	11 5/8	8 3/4	8 1/8	5 1/2	9 3/8
9	12 7/8	12	11 1/2	10 7/8	8 3/8	7 1/4	4 7/8	3 3/4	5
(33)%	2%	9%	14%	14%	12%	13%	7%	1%	9%
52 : 48	39 : 61	39 : 61	37 : 63	22 : 78	24 : 76	30 : 70	35 : 65	36 : 64	30 : 70
12,434	13,791	14,578	14,730	15,199	17,706	18,812	16,796	17,571	18,551
2,322	2,615	2,945	3,144	3,408	2,698	2,950	1,175	1,289	1,350
87.0	86.7	86.3	86.1	85.9	80.8	73.7	73.1	72.7	71.4
13,280	15,819	16,053	15,871	15,332	15,295	15,408	15,151	15,017	17,409
667	723	702	653	598	560	537	513	480	474

(at February 29, 1992)

Board of Directors

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Toronto,
Deputy Chairman of the Board and Deputy Chief Executive Officer, The Bank of Nova Scotia

Gilles Blondeau 1,2,4
Montréal,
Chairman of the Board and Chief Executive Officer, Optimum Group Inc.

Jean Campeau 1,2,4,5
Montréal,
Chairman of the Board, Domtar Inc.

Pierre Desjardins 1,5
Montréal,
President and Chief Executive Officer, Domtar Inc.

Robert Després, O.C. 1,2
Québec,
President, DRM Holdings Inc.

Jacques A. Drouin 4,5
Montréal,
Chairman of the Board, President and Chief Executive Officer, The Laurentian Group Corporation

Marc G. Fortier 1,2,5
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Claude Hélie 1,3
Montréal,
Vice-President, Finance and Treasurer, Société générale de financement du Québec

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Company director

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Economic and Financial Consultant

Rémi Marcoux 2,3
Montréal,
Chairman of the Board, President and Chief Executive Officer, G.T.C. Transcontinental Group Ltd.

Angela C. Peters 3
Halifax,
Company director

James A. Robb, Q.C. 3
Montréal,
partner in the law firm of Stikeman, Elliot

Bernard A. Roy, Q.C. 4
Montréal,
partner in the law firm of Ogilvy Renault

Henri A. Roy 4
Calgary,
Executive Vice-President, Trizec Corporation Ltd.

John D. Thompson 2
Montréal,
President and Chief Executive Officer, Montréal Trustco Inc.

Edward J. Waters 4,5
New York,
Consultant, Kidder, Peabody & Co. Inc.

Member of the

1. Executive Committee
2. Excutive Management and Compensation Committee
3. Audit Committee
4. Pension Fund Investment Committee
5. Nominating Committee

Senior Management

Jean Campeau 1
Chairman of the Board

Pierre Desjardins 1,2
President and Chief Executive Officer

Robert G. Vaux 1,2
Vice-President, Finance and Corp. Devt. and Chief Financial Officer

Laurence G. Sellyn 1
Controller

Halford M. Wilson 1
Treasurer

Pierre Deniger 1,2
Vice-President, Corporate Affairs

Gilles Pharand 1,2
Vice-President, Administration, Secretary and General Counsel

Claude Saillant 1,2
Vice-President, Human Resources

Pierre Dupuis 1,2
President, Construction Materials and Packaging

Robert C. Katz
Vice-President Gen. Mgr., Domtar Gypsum

Claude Arcand
Vice-President Gen. Mgr., Decorative Panels

Sandy Bannerman
Vice-President Gen. Mgr., Wood Preserving

Jan Oosterwaal
Vice-President Gen. Mgr., Commercial Roofing

Don J. Whittle
Vice-President Gen. Mgr., Packaging

Stephen C. Larson 1,2
President, Pulp & Paper Products

George Kobrynsky
Vice-President Gen. Mgr., Communication Papers

George D. Blackmore
Vice-president Gen. Mgr., Specialty Fine Papers

Barry R. Lynch
Vice-President Gen. Mgr., Domtar Merchants

Robert S. Forbes
Vice-President Gen. Mgr., Newsprint & Groundwood Specialty Papers

Eddie Ross
Vice-President Gen. Mgr., Pulp and Forest Products

Yvon Beauregard
Vice-President, Environment

Robert J. Eamer
Vice-President, Research & Development

1 Officer of the Corporation
2 Member of the Policy Committee

Operating Locations

Pulp & Paper Products

Communication Papers

Windsor, Québec

Specialty Fine Papers

Beauharnois, Québec
Cornwall, Ontario
St. Catharines, Ontario

Domtar Merchants

Domtar operates a network of fine paper merchants in major regional centres, including:
St. John's, Newfoundland
Dartmouth, Nova Scotia
Saint John, New Brunswick
Montréal, Québec
Ottawa, Ontario
Mississauga, Ontario
Hamilton, Ontario
London, Ontario

Kraft Pulp

Lebel-sur-Quévillon, Québec

Newsprint and Groundwood Specialty Papers

Dolbeau, Québec
Donnacona, Québec

Forest Products

Windsor, Québec
Mistassini, Québec
Dolbeau, Québec
Saint-Félicien, Québec
Val-d'Or, Québec
Malartic, Québec
Lebel-sur-Quévillon, Québec
Matagami, Québec
Cornwall, Ontario
Trenton, Ontario
White River, Ontario
Red Rock, Ontario

Packaging

Containerboard

Trenton, Ontario
Mississauga, Ontario
Red Rock, Ontario

Corrugated Containers

Moncton, New Brunswick
Québec City, Québec
Montréal, Québec
Peterborough, Ontario
Toronto, Ontario (4)
Barrie, Ontario
St. Marys, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Edmonton, Alberta
Richmond, B.C.

Recycling

Montréal, Québec
Toronto, Ontario
Buffalo, New York

Construction Materials

Domtar Gypsum

St. George's, Newfoundland
Windsor, Nova Scotia
Longueuil, Québec
Caledonia, Ontario
Winnipeg, Manitoba
Edmonton, Alberta
Surrey, B.C.
Newington, New Hampshire
Camden, New Jersey
Savannah, Georgia
Fort Lauderdale, Florida
Orlando, Florida
Lockport, New York
Grand Rapids, Michigan
Sweetwater, Texas
Florence, Colorado
Tacoma, Washington
Antioch, California
San Leandro, California
Long Beach, California

Decorative Panels

Huntsville, Ontario
Norcross, Georgia
Albany, Oregon

Wood Preserving

Truro, Nova Scotia
Delson, Québec
Trenton, Ontario
Prince George, B.C.
New Westminster, B.C.

Commercial Roofing

Cornwall, Ontario

Pulp & Paper Products

Communication Papers

Canada
- Montréal, Québec
  Tel: (514) 848-6610
- Toronto, Ontario
  Tel: (416) 785-2528

United States
- Stamford, Connecticut
  Tel: (203) 359-1160
- Chicago, Illinois
  Tel: (708) 620-5330

Specialty Fine Papers

Canada
- Montréal, Québec
  Tel: (514) 848-6620
- Toronto, Ontario
  Tel: (416) 785-2546
- Ottawa, Ontario
  Tel: (613) 782-4984
- Vancouver, B.C.
  Tel: (604) 986-7177

United States
- Stamford, Connecticut
  Tel: (203) 359-1160
- Chicago, Illinois
  Tel: (708) 620-5330
- Dayton, Ohio
  Tel: (513) 438-3337

Overseas
- Montréal, Québec
  Tel: (514) 848-6657

Domtar Merchants

The Paper House / La Maison du Papier:
- St. John's, Newfoundland
  Tel: (709) 368-2108
- Dartmouth, Nova-Scotia
  Tel: (902) 468-6323
- Saint John, New Brunswick
  Tel: (506) 633-0909
- Saint-Laurent, Québec
  Tel: (514) 331-8610

Buntin Reid Paper:
- Mississauga, Ontario
  Tel: (416) 670-1351
- London, Ontario
  Tel: (519) 659-8449
- Hamilton, Ontario
  Tel: (416) 522-1331
- Ottawa, Ontario
  Tel: (613) 731-8410

Newsprint and Groundwood Specialty Papers

Canada
- Montréal, Québec
  Tel: (514) 848-5071

United States
- Stamford, Connecticut
  Tel: (203) 359-1160

Kraft Pulp and Forest Products

Kraft Pulp:

Canada and Overseas
- Montréal, Québec
  Tel: (514) 848-5540

United States
- Stamford, Connecticut (serves the New England area)
  Tel: (203) 967-7500
- Kalamazoo, Michigan (serves the Midwest area)
  Tel: (616) 381-7283

Lumber:
- Montréal, Québec
  Tel: (514) 848-5133

Packaging

Containerboard:
- Mississauga, Ontario
  Tel: (416) 671-7200

Corrugated Containers:

Eastern Canada
- Moncton, New Brunswick
  Tel: (506) 853-8153
- Québec City, Québec
  Tel: (418) 683-2351
- Montréal, Québec
  Tel: (514) 848-5200

Ontario
- Peterborough, Ontario
  Tel: (705) 748-6881
- Etobicoke, Ontario
  Tel: (416) 255-8541
- Scarborough, Ontario (Lithotech - High Graphics)
  Tel: (416) 412-3500
- Barrie, Ontario (Jellco Packaging)
  Tel: (416) 362-5025
- St. Mary's, Ontario
  Tel: (519) 284-1840
- Waterloo, Ontario
  Tel: (519) 725-1144

Western Canada
- Winnipeg, Manitoba
  Tel: (204) 786-5761
- Calgary, Alberta
  Tel: (403) 255-4441
- Richmond, B.C.
  Tel: (604) 273-7321

Construction materials

Domtar Gypsum

Canada

Québec
- Montréal East, Québec
  Tel: (514) 355-4980

Atlantic and Ontario
- Windsor, Nova-Scotia
  Tel: (902) 798-2287
- Caledonia, Ontario
  Tel: (416) 765-4011

Prairies
- Edmonton, Alberta
  Tel: (403) 472-6732

Western Canada
- Vancouver, B.C.
  Tel: (604) 580-0635

United States

New England
- Newington, New Hampshire
  Tel: (603) 433-8000

Mid-Atlantic
- Camden, New Jersey
  Tel: (609) 966-7600

North Central
- Grand Rapids, Michigan
  Tel: (616) 453-0990

Southeast
- Savannah, Georgia
  Tel: (912) 233-4951

Pacific Northwest
- Tacoma, Washington
  Tel: (206) 627-2100

Northern California
- Antioch, California
  Tel: (510) 757-5400

Southern California
- Long Beach, California
  Tel: (213) 435-7711

Decorative Panels

Canada and United States

North
- Huntsville, Ontario
  Tel: (705) 789-9683

South
- Norcross, Georgia
  Tel: (404) 368-2330

West
- Albany, Oregon
  Tel: (503) 928-1942

Wood Preserving

Atlantic
- Truro, Nova-Scotia
  Tel: (902) 893-9456

Central
- Montréal, Québec
  Tel: (514) 848-6767
- Trenton, Ontario
  Tel: (613) 392-6769

West
- Cochrane, Alberta
  Tel: (403) 932-3793
- Burnaby, B.C.
  Tel: (604) 299-8471

Commercial Roofing

Québec
- LaSalle, Québec
  Tel: (514) 364-9154

Ontario
- Mississauga, Ontario
  Tel: (416) 624-2206

Western Canada
- Burnaby, B.C.
  Tel: (604) 526-4626

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Pages 33 to 56: Sandpiper ®, 100% Recycled, Text, Lily of the Valley, 160(M) - 80 lb - 118 g/m²	*100%*	*100%*
Pages 57 to 64: Sandpiper ®, 100% Recycled, Text, Mint, 160(M) - 80 lb - 118 g/m²	*100%*	*100%*

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